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GLOBAL SECURITY ASSESSMENT

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES
ONE HUNDRED TENTH CONGRESS
SECOND SESSION

HEARING HELD
FEBRUARY 13, 2008

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GLOBAL SECURITY ASSESSMENT

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
Washington, DC, Wednesday, February 13, 2008.

The committee met, pursuant to call, at 10:03 a.m., in room 2118, Rayburn House Office Building, Hon. Ike Skelton (chairman of the committee) presiding.

OPENING STATEMENT OF HON. IKE SKELTON, A REPRESENTATIVE FROM MISSOURI, CHAIRMAN, COMMITTEE ON ARMED SERVICES

The CHAIRMAN. Welcome, ladies and gentlemen, to a rainy day. Nonetheless, we will get started. Welcome to the Armed Services Committee hearing on Global Security Environment.

We are pleased to have with us today Dr. Thomas Fingar, Deputy Director of National Intelligence Analysis in the Office of the Director of National Intelligence (DNI); Mr. Robert Cardillo, Deputy Director for Analysis from the Defense Intelligence Agency (DIA); and Mr. John Kringen, Director of Intelligence for the Central Intelligence Agency (CIA).

Gentlemen, we welcome you.

We are entering a period where we hear from each of the leadership of the Defense Department, the leaders of Armed Services, Combatant Commanders as well, as they come before us to testify about their portion of the 2009 Defense budget. It is our job to consider their recommendations.

This hearing is designed to provide a broad strategic context of the overall security environment facing our country as our committee considers those Defense budget requests. We have spent a great deal of time focusing on the wars in Iraq and Afghanistan, as you well know, but that doesn't mean we can afford to be any less vigilant regarding the rest of the world.

It is important to remember that international security is a fluid situation. We must hedge against strategic surprise and at the same time work to identify trends that could have implications for our national security down the road. Early identification of those challenges is very, very important.

We know that in the last 31 years we have had 12 military contingencies, four of which have been major in size, none of which was anticipated very far ahead. So while we fight today's wars in Iraq and Afghanistan, we need to be careful that we don't become too nearsighted and fail to see what might else be out there, and that is your job, to discuss that with us today.

So, with that, gentlemen, we appreciate you being with us. And I ask that the remainder of my statement be placed in the record.

And we will proceed after we hear from Mr. Hunter, please.

STATEMENT OF HON. DUNCAN HUNTER, A REPRESENTATIVE FROM CALIFORNIA, RANKING MEMBER, COMMITTEE ON ARMED SERVICES

Mr. HUNTER. Thank you, Mr. Chairman, and thanks for having this very important hearing.

Gentlemen, I want to join the chairman in welcoming you this morning. What you produce and what your agencies produce is the basis upon which this committee and several other committees basically develop those systems and policies that together constitute the defense apparatus of this country. So your work is extremely important.

And let me go over just a couple of areas that I think we need to look at, and I would hope you could talk directly to some of the questions that arise as a result of recent developments in several areas.

One is that the Pentagon's 2007 report on Chinese military developments highlights China's growing power projection and strategic forces capabilities—in particular, their Blue Water Navy. They have got a lot of submarines under construction right now, a fairly large force. Some good stuff, some nuclear attack boats now being developed, as well as very capable diesel submarines. Their ballistic missile development and their counter-space and cyber capabilities, which particularly should concern us.

It is clear that these capabilities would extend Chinese power well beyond a Taiwan Straits scenario. And my own knowledge of these developments tells me that the President's fiscal year 2009 budget request is insufficient to counter them.

So I would like your assessment of the Chinese rationale for developing these particular capabilities and where they are in fielding robust capabilities, such as those mentioned. How are those programs moving and where do you expect them to go?

As I mentioned last summer, Iran has taken innumerable steps to counter U.S. influences in the Middle East by supporting international terrorism, expanding its ballistic and anti-ship cruise missile arsenal, and testing U.S. military rules of engagement in the Straits of Hormuz. I also remain concerned about Iran's engagement in Afghanistan and Iraq, and I would appreciate your assessment of the extent of Iranian influence in those countries and what you see as their thinking behind their activities with respect to those countries.

Over the last couple of months, many witnesses before the committee have remarked on the tenuous security situation in Pakistan, which is a critical partner in U.S. counterterrorism efforts. What is your assessment of the impact that Pakistani elections, to be held next week, will have on stability there? How would you characterize the presence of Taliban elements in the federally-administrated tribal areas (FATA)? And what effect are those elements having on the U.S. and coalition operations in Afghanistan?

In terms of functional terms of concern, I note that it appears that state and nonstate actors may be posing additional nontraditional or asymmetric threats in some cases, increasing their cooperation with each other to the detriment of U.S. security inter-

ests. For example, more than 20 countries now have a ballistic missile capability, and that proliferation is occuring among both state and nonstate actors. For example, last week Iran tested a space-launch vehicle and wants to launch a satellite by next year.

Wouldn't this technology transfer directly into a long-range missile program? Could you comment on that? And what is your assessment of the relationship between state and nonstate actors in this area?

We also face the ongoing challenge of technology transfer. You have got some foreign entities coming in now with massive amounts of money to acquire American defense companies with critical capabilities that can give the United States military a qualitative advantage over potential adversaries. Other entities are engaged in industrial espionage. I would like our witnesses to comment on this threat, and I would like you to comment on which countries or nonstate organizations work to illicitly acquire U.S. technology with military application through foreign ownership, control or influence, and what kind of capabilities do these entities possess.

You know, I think this is going to be the challenge of the next 5 to 10 years as we see other nations, some of which could be described as having interests that are distinctly different from America's interests, with large amounts of cash, obtained through trade imbalances, now purchasing American technology companies, some of which deliver technology to the Department of Defense, some in critical areas.

Do you agree that that is going to be a challenge for the future? And do you think that the current system that we have, this so-called Committee on Foreign Investment in the United States (CFIUS) review system, is adequate? Or do you think that commercial interests are dominating the process and preventing security interests from really engaging and working this problem and being the deciding factor as to whether or not such deals are allowed?

A final example is the cyber security arena. Last year a cyber attack on Estonia raised the spectre of states enlisting nonstate actors to act as a proxy. The attacks against Estonia impacted communications, economic systems, and other infrastructure, which raises new concerns about the scope of potential hostile actions we might face. And the Estonia event is not an anomaly.

Last year, the U.K. and Germany publicly raised concerns with Chinese activity in their national systems. And the United States itself has experienced impacts from cyber activity.

As we continue our discussion of threats to U.S. national security interests, I think we have got to keep in mind that these challenges are increasing in complexity, diversity, and range. They require this committee's understanding of the global security equation and a continued effort to ensure that our forces have the necessary tools to protect and defend our security interests.

So thanks a lot, gentlemen, for being with us this morning. I think that this is a very timely hearing, Mr. Chairman, and I look forward to the testimony.

The CHAIRMAN. Certainly thanks to the gentleman for this statement.

Dr. Fingar, we recognize you, and the gentlemen with you, as you wish to proceed.

Dr. Fingar.

STATEMENT OF DR. THOMAS FINGAR, DEPUTY DIRECTOR OF NATIONAL INTELLIGENCE FOR ANALYSIS, OFFICE OF THE DIRECTOR OF NATIONAL INTELLIGENCE

Dr. FINGAR. Thank you, Mr. Chairman.

Chairman Skelton, Ranking Member Hunter, members of the committee, we thank you for this invitation to provide an assessment of our threats to the nation's security.

I am pleased to be accompanied today by DIA Deputy Director for Analysis Robert Cardillo and CIA Director of Intelligence John Kringen.

As you requested, I will provide a brief overview of the threats and challenges examined in greater detail in a statement for the record, which we have submitted to the committee. I am pleased to note that many of the questions raised by Mr. Hunter are addressed in the opening statement, but we would be happy to explore them further in question and answer.

Mr. Chairman, globalization has broadened a number of threats and challenges facing the United States. For example, as government, private sector, and personal activities continue to move to network operations and our digital systems add evermore capabilities, our vulnerability to penetration and other hostile cyber action grows.

The nation requires more of our intelligence community than ever before. And, consequently, we need to draw upon the expertise and experience of analysts inside and outside the intelligence community.

My remarks today and the statement for the record reflect the coordinated judgments of the intelligence community and the efforts of literally thousands of patriotic professionals from more than 16 agencies, many of whom serve in harm's way.

Mr. Chairman, in order to reserve as much time as possible for your questions, I will focus on the following areas: the continuing global terrorist threat; weapons of mass destruction (WMD) proliferation, specifically the threat of Iran's nuclear activities; the cyber threat to the U.S. information infrastructure; the situation in Iraq and Afghanistan; and military modernization in Russia and China.

Turning first to terrorism, al Qaeda and its terrorist affiliates continue to pose significant threats to Americans at home and abroad. And al Qaeda's central leadership is its most dangerous component. Using its sanctuary along Pakistan's northern border, al Qaeda has been able to maintain a cadre of skilled lieutenants capable of directing the organization's operations around the world.

It has lost many of its senior operational planners over the years, but the group's adaptable decision-making process and its bench of skilled operatives have been able to identify effective replacements. It is now attempting to identify, recruit, train and position operatives for an attack on the homeland.

We assess that al Qaeda's homeland plotting is likely to continue to focus on prominent political, economic and infrastructure targets

designed to produce mass casualties, visually dramatic destruction, significant economic aftershocks and/or fear among our population.

Al Qaeda's affiliates from Africa to Southeast Asia also pose a significant terrorist threat. Al Qaeda in Iraq, AQI as we refer to it, has been weakened during the past year, but it remains al Qaeda's most visible and capable affiliate. Another affiliate, al Qaeda in the Lands of the Islamic Maghreb, or AQIM, is the most active terrorist group in northwestern Africa. We assess it represents a significant threat to U.S. and European interests in the region.

Other al Qaeda regional affiliates kept a lower profile in 2007, but we judge that they remain capable of conducting attacks against U.S. interests.

Homegrown extremists inspired by militant Islamic ideology but without operational direction from al Qaeda are an evolving danger, both inside the U.S. and to our interests abroad. Disruptive plotting last year in the United States illustrates the nature of this threat. In addition, our European allies continue to uncover new extremist networks plotting against the U.S. as well as targets in Europe.

We turn to WMD proliferation. The ongoing efforts of nation states and terrorists to develop and/or acquire dangerous weapons and delivery systems constitute the second major threat to our safety. Over the past year, we have gained important new insights into Tehran's activities related to nuclear weapons and the community recently published a national intelligence estimate (NIE) on Iranian intent and capabilities in this area.

The classified estimate is 140 pages long, has nearly 1,500 source notes, and presents both our evidence and analytic tradecraft in meticulous detail. Because the two and a-half page unclassified summary has been widely misinterpreted and misconstrued, I welcome this opportunity to clarify some of its key findings. They include that Iran had a secret nuclear weapons program for many years that Tehran has never acknowledged and continues to deny. The program has three components: the production of fissile material, development of missiles to deliver nuclear weapons, and the design and development of the nuclear weapons themselves.

The production of fissile material and missiles continues. Tehran halted weaponization and certain other covert activities in 2003 in response to international scrutiny and pressure, but at a minimum is keeping open the option to develop nuclear weapons. Iran continues to develop technical capabilities that could be applied to the production of nuclear weapons and we judge that it has the technical and industrial capability to produce nuclear weapons should it desire to do so.

The estimate also addresses several other Iranian nuclear activities and we would be pleased to answer any questions that you may have about this NIE.

Before leaving WMD proliferation, I must note North Korea. North Korea's nuclear weapons and missile programs threaten to destabilize a region that has known many great power conflicts and comprises some of the world's largest economies. Pyongyang has already sold ballistic missiles to several Middle Eastern countries and to Iran.

We are concerned that North Korea might decide to sell nuclear weapons as well.

Turning to the cyber threat, the U.S. information infrastructure, including telecommunications and computer networks and systems and the data that reside on them, is critical to virtually every aspect of modern life. As government, private sector and personal activities continue to move to network operations, as our digital systems add evermore capabilities, as wireless systems become even more ubiquitous, and as the design, manufacture and service of information technology moves overseas, our vulnerabilities continue to grow.

Over the past year, cyber exploitation activity has grown more sophisticated, more targeted and more serious. The intelligence community expects these trends to continue.

Turning to Iraq, the security situation in Iraq continues to show signs of improvement. Security incidents countrywide have declined significantly to their lowest level since the February 2006 Samara Golden Mosque bombing. Monthly civilian fatalities nationwide have fallen by over half in the past year.

Despite these gains, however, a number of internal factors continue to undermine Iraq's security. Sectarian distrust is still strong throughout Iraqi society. AQI remains capable of conducting destabilizing operations and spectacular attacks, despite significant disruption of its networks. Intercommunal violence in southern Iraq has spread beyond clashes between rival militia factions. And while improving significantly over the past year, the ability of the Iraqi security forces to conduct effective operations independent of coalition forces remains limited.

Bridging differences among competing communities and providing effective governance are critical to achieving a successful state and long-term solution. Though slow, progress is being made. We have seen economic gains and quality of life improvements for Iraqis, but improvements in security, governance and the economy are not ins in themselves. Rather, they are the means to restore Iraqi confidence in the central government, and of easing sectarian distrust.

In 2007, the number of attacks in Afghanistan's Taliban-dominated insurgency exceeded that of the previous year, in part because coalition and Afghan security forces undertook many more offensive operations. Efforts to improve governance and extend development were hampered by a lack of security in some areas and limitations in government capacity.

Ultimately, defeating the insurgency will depend heavily on the government's ability to improve security, delivery effective governmental services and expand economic development and opportunity.

The drug trade is one of Afghanistan's greatest long-term challenges. The insidious effects of drug-related criminality continue to undercut the government's ability to assert its authority, develop a strong rule-of-law-based system and rebuild the economy. Taliban groups operate in the poppy-growing regions and gain some financial support through their ties to local traffickers.

Turning briefly to Russian and Chinese military modernization, increases in defense spending have enabled the Russian military to

begin to reverse the deep deterioration in its capabilities that began before the collapse of the Soviet Union. The military still faces significant challenges, for example, in demographic trends and health problems. In addition, conscription deferments erode available manpower and Russia's defense industry suffers from a loss of skilled personnel.

China's military modernization program is shaped, in part, by the perception that a competent, modern military force is an essential element of great power status. Improving Chinese theater-range missile capabilities will put U.S. forces at greater risk from conventional weapons. In addition, Beijing seeks to modernize China's strategic nuclear forces to address concerns about the survivability of those systems.

If present trends in the global development of counter-space capabilities continue, Russia and China will have an increasing ability to target U.S. military, intelligence and navigation satellites to degrade our command and control systems and our ability to use effectively our precision weapon systems.

Mr. Chairman, this summary has provided only a brief overview of the threats examined at greater length in our written statement, and it has omitted many of the others in order to leave more time for questions.

My colleagues and I look forward to your questions and will answer as directly and concretely as possible in an unclassified setting.

Thank you for your interest.

[The prepared statement of Dr. Fingar can be found in the Appendix on page 33.]

The CHAIRMAN. Certainly. Thank you, Doctor, and gentlemen, thank you.

Doctor, in your opinion, as we view the world today, and as we view the readiness posture of our troops, what do you consider the most likely threat to our national security interests? I realize that is a crystal ball question, but in your considered professional judgment, Doctor.

Dr. FINGAR. Mr. Chairman, let me provide my view. I will divide it in two parts, and invite my colleagues, since it is a crystal ball question, and we would like you to have benefit of the perspective of all of us.

I think the most likely threat is the terrorist threat. In part it is the determination and the skill of our terrorist adversaries, in part it is because asymmetric warfare is taken to its extreme on one end of the spectrum when an individual suicide bomber, willing to sacrifice himself or herself, can do terrible damage in crowded settings, in which the psychological effect may be even greater than the physical destruction.

In terms of conventional military threats, I think the greatest danger is one of misperception, miscalculation or escalation of regional conflicts. To be more specific, miscalculation by any of the parties involved in watching the Taiwan Strait situation, by Taiwan, by the mainland, their perceptions of what we may or may not do, judgments about what anticipatory or preemptive actions may be necessary in order to deter one of the parties. The danger of that spinning out of control is real.

With instability in so much of the world, the Middle East in particular, and the importance of energy resources in that region, it doesn't take a very sophisticated crystal ball to predict the possibility for localized conflict drawing in regional powers and then drawing in the United States. And the appeal of asymmetric methods to adversaries who cannot compete with us in terms of conventional military force means there is a threat to Americans everywhere.

I invite my colleagues to respond.

STATEMENT OF ROBERT CARDILLO, DEPUTY DIRECTOR FOR ANALYSIS, DEFENSE INTELLIGENCE AGENCY

Mr. CARDILLO. Sir, I will just add, from a Defense intelligence perspective, we would agree with Dr. Fingar's outline.

I would specify, though, that if we have got an adversary who seeks to do harm to U.S. national security interests, the wrong way to go about it is a conventional approach, force on force. We have done a great deal to strengthen our capabilities along those more traditional lines.

And that is what I think—that leads one to, with respect to what the greatest risk is, the asymmetric threat that Dr. Fingar touched on, and I will focus specifically on the cyber threat. Because of the way our forces are networked, the way we command and control them, the way we provide intelligence to them, the way we are connected, we have a great risk if that capability is at all threatened. And thus, that is the main reason why we are now increasing our focus, resources, effort and time on how to provide the intelligence required in order to combat a cyber threat.

STATEMENT OF JOHN A. KRINGEN, DIRECTOR FOR INTELLIGENCE, CENTRAL INTELLIGENCE AGENCY

Mr. KRINGEN. I would simply add, as an overlay, our concern about the continued proliferation of nuclear weapons. If you go back to 2002 and a potential confrontation between India and Pakistan that might have involved an exchange of nuclear weapons, as those weapons continue to proliferate, the concern is those regional scenarios that Tom has already described could very well turn into not only a conventional conflict but a nuclear conflict as well.

The CHAIRMAN. Thank the gentlemen.

Mr. Hunter.

Mr. HUNTER. Thank you, Mr. Chairman.

Dr. Fingar, you think the terrorist threat is perhaps the most pressing right now. The 2,000 mile exposed border between the United States and Mexico, with a smuggling apparatus in northern Mexico that has been designed to accommodate large operations, smuggling both people and narcotics, a multi-million-dollar-per-night industry, would that not accommodate people who wish to smuggle explosives, for example, at some point across the border? And do you consider that to be an exposure to our national security, that open border?

Dr. FINGAR. It certainly is an exposure, the ability of people, of goods, to cross the border illicitly. The very, very large volume of legal commerce and movement of people that occurs provides a sit-

uation in which it might be explosives, it might be terrorists, it might be biological agents. Many things could come in.

In the written statement, we note that among the positive developments of the last year are the efforts by the new administration in Mexico, effective efforts, more effective than in recent memory, to address the kind of networks, the lawless networks, that exist in Northern Mexico, and the cooperation between our two countries to make the border less vulnerable. They have an interest in doing it for their domestic stability. They point out that arms coming from the north are a problem in their country as we point out that there are far more problems coming north than going south.

But this is a very, very positive sign from the new administration.

The CHAIRMAN. Do you think that we have now effectively enforced the border against the smuggling of people and narcotics?

Dr. FINGAR. My judgment would be no.

Mr. KRINGEN. In fact, our estimate still would be that roughly 90 percent of the narcotics that come into the United States, cocaine in particular, come through Central America, Mexico.

What I think Tom was trying to point out is that we see a level of engagement in that issue that is going to require long work, probably over a decade or more, to make that kind of progress. But for a while, some parts of those border areas, the government had less control, and they are trying to seize control of that now.

Mr. HUNTER. Well, I guess my question to you is, I have been here 26 years, and we have talked with a number of administrations about 10-year programs to control the border, but at this point there is not a—and we continue to work with Mexico, as we have for 100 years, but there is not a physical border control apparatus, that is fences, roads, lights, border control that physically keeps smugglers from moving illicit cargo across the border at will in this 2,000-mile area.

So my question to you is, is that an exposure in terms of you said you thought that the biggest threat to the country was terrorism and that people are planning to at some point have an event in the American homeland. Is that 2,000-mile open border, and I am talking about physically open, not whether or not politicians are meeting and working on and designing cooperative ways to step the flow, but is the physically open border a threat to American security against the backdrop of terrorists who will at some point attempt to stage an operation in the United States? That is my question.

Dr. FINGAR. It is certainly a vulnerability, the open access of our nation, not just the southern border. The ability to move around easily, is a vulnerability.

I will invite the National Intelligence Office for Terrorism to correct me if I am wrong, but I don't think we have had a terrorist, a known case of a terrorist entering, through Mexico.

Mr. HUNTER. No, we haven't, but we are talking about exposures——

Dr. FINGAR [continuing]. The exposure is real.

Mr. HUNTER. We all know we haven't had a terrorist attack since 9/11. On the other hand, you are telling us don't rest too easy, right?

Dr. FINGAR. That is correct.

Mr. HUNTER. Mr. Cardillo, did you have a comment on that?

Mr. CARDILLO. On the border, sir?

Mr. HUNTER. Yes.

Mr. CARDILLO. We would agree——

Mr. HUNTER. Whatever you indicated you were going to comment on.

Mr. CARDILLO. Sir, we would simply agree that that access is a vulnerability, and to the extent that there are people, nonstate actors and state actors that wish to do us harm, as long as that is open, it will increase the threat, yes, sir.

Mr. HUNTER. Okay. This second question, quickly, is this. Obviously, we have seen the Chinese demonstrate at least a threshold capability to take a satellite down, because they have done that.

Could you give us a description of how difficult you think it would be for them to basically, if they wanted to, to disrupt our satellite capability? Could it be done fairly easily, within a day or two?

Dr. FINGAR. Having demonstrated the capability, as the Russians have demonstrated this capability several years ago, given our dependence on that overhead architecture, that it would not be that difficult to inflict significant serious damage to our capabilities over the couple of day period that you specified.

Mr. HUNTER. Okay. Okay.

Thank you, Mr. Chairman.

The CHAIRMAN. Gentlemen, you heard the bells. We have a vote. It is a motion to adjourn. I am told it is only one vote, although your intelligence may be better than ours.

We will be in recess until after the vote.

[Recess.]

Dr. SNYDER [presiding]. Why don't we resume.

Mr. Larsen, for five minutes.

Mr. LARSEN. Thank you, Mr. Chairman.

Just some questions, I think. One, I was surprised and pleased to see a little bit more in the assessment on Central and South America this year. There is a lot more going on down there, obviously, and to see that reflected in the assessment, to help us, is helpful.

I was struck, though, too, by the answers to the question that Mr. Skelton asked about what is the most likely. And I don't know if it was in any particular order, but I heard the terrorism threat, the asymmetric terrorism threat and asymmetric cyber security threat, and then weapons of mass destruction proliferation.

Can you help me understand, do you have an assessment about what percentage of our Defense budget or Homeland Security budget, in total, if those are the most likely threats, what percentage of the budget that we produce each year actually are directed at that threat? And you can be very broad in your—don't be conservative with your estimate.

Dr. FINGAR. Congressman, I don't think I could give you even a semi-informed guess. We are just the wrong people, unless you happen to know.

Mr. LARSEN. My concern is, I am not sure I could find that answer, either. I don't know that we—my point is, I don't know that

we have fully aligned, say, your kind of assessment, with what our budget reflects. And hopefully we can use this assessment this year to better inform our Defense budget process.

I noticed there have been some questions about—yes?

Dr. FINGAR. If I may, Congressman, first, we will be delighted that our assessment is helpful in the process. That is why we prepare them, to be helpful and provide insight. But your list had three of the four that we mentioned. I had miscalculation and conventional—I think it is important to note that there is a relationship between our conventional military superiority and the very small magnitude of conventional threats.

I take, and I think your question about are we properly aligned given the diversity of threats, is a good one.

Mr. LARSEN. With regards to China, you mentioned—and Russia a little bit, too—but you talked about their abilities or capabilities. Have you looked at—does your assessment consider intent at all? Certainly not this written assessment that we have here, the unclassified, doesn't. But do you look at intent? I certainly agree with your assessment about capabilities, but with regards to China it seems more directed perhaps to a Taiwan scenario, and it may be help—that we stand off from a Taiwan scenario, although we may have a difference of opinion with the Chinese and what we would do there.

Do you have an assessment about the intent to go along with the capability?

Dr. FINGAR. First, the general point is, yes, we look at intent as well as capability in the course of doing business as usual.

If I understood the specific question with regard to China's intent, the Chinese have said publicly, and we would not challenge that, they need a peaceful international environment in order to continue the economic growth that is so critical to the legitimacy of the government and to raising the living standards and becoming a world power.

They know that the United States is the yardstick against which to measure capabilities. So as they modernize their military, they are looking to the most demanding situation, and that happens to be us.

But we certainly assess that the Chinese do not have current intent to take aggressive action against the United States.

Mr. CARDILLO. Can I add, if I could, though, we believe, from a Defense intelligence perspective, that motivation to the modernization that we talked about in the statement is to deny us access in that region. And so it is against our naval and air force presence and our ability to project power into it. And so that is behind their rationale for the modernization.

Mr. LARSEN. Largely, in a Taiwan scenario, or——

Mr. CARDILLO. Largely. Yes, sir.

Mr. LARSEN. Thank you.

Dr. SNYDER. Mr. McHugh, for five minutes.

Mr. MCHUGH. Thank you, Mr. Chairman.

Dr. Fingar, welcome. Gentlemen, appreciate you being here.

Doctor, I appreciate your efforts to clarify the recent Iran NIE vis a vis nuclear weapons development. For those of us who had the

opportunity to read the full report, it was pretty clear that they are still a significant threat, as you have suggested here today.

However, I would like to try to get a better understanding, if I could, as to the findings of the recent NIE and some other intelligence service estimates, particularly the Israelis. When our NIE was first developed, some of us were told that from that time until now there would be efforts to get together with the Israelis, to go over the data, which thankfully we routinely do, and to try to see if there was some misunderstanding or a better way to come to common conclusions.

According to the open media last week, the Israeli estimate suggests, in fact states, if we believe the press reports, that the Israelis feel that the Iranian nuclear weapons development program will produce an end-product by 2009.

What is the status of our working with the Israelis to try to bring a common conclusion? And why do you think there is such a pretty marked difference between their findings and ours?

Dr. FINGAR. I want to make sure I don't start in a direction that would take this into a classified discussion, which we have to have.

The starting point I think is we are not actually all that far apart. Our possible but very unlikely timeline is not very different, months, from the Israeli admittedly worst case, not judged most likely but worst case. But for reasons having to do with the nature of the threat, it is existential for them they worst case. We have a spectrum.

Mr. MCHUGH. Is it fair to say that we have a difference of terminology, that when the Israelis say worst case, we would use the phrase low or moderate probability, or confidence, I should say? Because we don't assess to a worst case. We assess by probability and confidence levels.

Dr. FINGAR. Correct. The specific thing is what is the earliest date at which Iran could have enough fissile material for a weapon. The estimates judgment is possible but very unlikely by the end of 2009. More likely in the 2010–2015 timeline.

The Israelis, since it could be as early as the end of 2009, that is what they have to take, for planning purposes.

Mr. MCHUGH. Okay. Do we all agree that that is the assumption based upon the Iranians producing their own fissile material, but they could indeed, could they not, procure that from another source and skip a whole lot of years of development in that process?

Dr. FINGAR. Yes. If they procured it somewhere else, then they wouldn't have to produce it.

The estimate judges that they have—they may have acquired a small amount, but have not acquired enough for a weapon. And even if acquiring enough for a weapon, that is not a weapons capability. But to demonstrate that they have got it, they would have to use it, test it, and then it is gone.

So it is the centrifuge program, the fissile material production, that is the main variable in this.

Mr. MCHUGH. And although they have technically stopped their covert enrichment activity, they are still overtly enriching fissile material through a supposed civilian organization, true, a civilian development program?

Dr. FINGAR. That is correct.

Mr. MCHUGH. And for the purposes for creating a nuclear weapon, there is no difference, is there?

Dr. FINGAR. There is a difference in terms of the degree of enrichment, but the——

Mr. MCHUGH. But the capacity——

Dr. FINGAR [continuing]. If you can enrich it for reactor-grade fuel, the technical capability to enrich to weapons grade is not that much more demanding.

Mr. MCHUGH. And their development of a delivery system of missile and multistage rockets continues?

Dr. FINGAR. Correct.

Dr. SNYDER. Mrs. Davis.

Mr. MCHUGH. Thank you, Mr. Chairman. I didn't notice the light had changed. Thank you for reminding me.

Dr. SNYDER. Mrs. Davis, I will recognize you for five minutes, but if the buzzers go off and you prefer to come back and pick up one or two minutes after we get back, we will be glad to do that, too.

Mrs. Davis for five minutes.

Mrs. DAVIS OF CALIFORNIA. That is okay. I will be happy to finish up.

Thank you, gentlemen, for being here. I appreciate it.

I wanted to follow up a little bit on Mr. Larsen's question about the extent to which our budget priorities, or the threat assessments really inform our budget priorities. And I understand that you can't answer that, but I wonder whether you could comment on the extent to which that threat assessment informs or is supported by our national security strategies themselves, the structure and the role that even Congress could be playing now, as you see it. How aligned are they? And if not, what should we do about that?

Dr. FINGAR. It is an interesting, there is a feedback loop question that we have responsibility for providing the most objective and accurate description of the threat, global situation, evaluations that are not specifically threat-focused, that inform the national strategy and policy documents. And some of what we do is responsive to questions and taskings that feed into, specifically into these various documents.

We do not, and indeed it would be inappropriate for us, to evaluate U.S. policy in terms of does that policy, does that strategy, fit our view of the world. We can look at other guys, but not ourselves.

Where there is interchange is through participation in principal's committee meetings, National Security Council, Homeland Security Council meetings, deputy's committees and the whole cascade of lower-level gatherings where intelligence community analysis, judgments, insights are a part of the discussion and the deliberation. But not a report card on the strategy.

Do either of you want to add to that?

Mrs. DAVIS OF CALIFORNIA. As you step back from that, though, I would think that in many ways that would be very frustrating, to not be able to weigh in in a way that would be helpful. And I am thinking as well Secretary Gates, as you know, recently has talked more about how we deal with some of the nonconventional threats and the extent to which we need to work closer, we call it interagency reform, but State Department, Pentagon, using the

military in a different way, as one example, and how we develop a better capability in that area.

Is that something you can comment on, whether the extent to which what you are seeing would mean that we do need to in fact change our, you know, whether it is budget priorities or the interface between the agencies that would provide greater information, intelligence, down the line, that we are not really working with today. And maybe the other way I am looking at it is where are the gaps, really, in some of this intelligence that could be helpful to you?

Dr. FINGAR. You have put your finger on one of the challenges of being an intelligence professional, specifically in terms of analysts, where we are Americans, we are concerned about sort of our Nation's policy priorities and so forth.

But when functioning as intelligence analysts, we try very hard to inculcate "you don't have an agenda, you don't have preferences." If we are not seen as being neutral, objective, honest, calling it as we see it, we are not useful. We would discredit ourselves from the beginning.

So each individual analyst has to wrestle with this. Institutionally, we don't engage. Individually, there is the temptation to make it a little more clear, and people would see it. The way it has a positive impact, from my—is interaction with those we support, policy makers, military commanders, law enforcement, to be able to see questions that they should have asked, things that they don't seem to understand, that we might get an answer and provide an analytic judgment for them.

Dr. SNYDER. We will be in recess——

Mrs. DAVIS OF CALIFORNIA. Thank you.

Dr. SNYDER [continuing]. Until the conclusion of the vote.

I apologize, gentlemen.

[Recess.]

Dr. SNYDER. If we have all three people here, we will resume.

Dr. Gingrey for five minutes.

Dr. GINGREY. Mr. Chairman, thank you.

Gentlemen, we appreciate, of course, very much you being here this morning for this most important hearing. And, of course, you understand we are running back and forth to the floor and voting on what you might say are dilatory type motions. And of course the reason for that is the difference in opinion in regard to the Protect America Act, which as you know on a short-term extension will expire this Saturday. The majority has passed a rule for a bill to present which would extend that another three weeks, another extension of the Protect America Act.

This hearing, of course, is to inform the House Armed Services Committee about the intelligence threat, strategic threat, to our future, and I think it would be very apropos for all three of you to address the issue of what you think the effect would be if we continue to not pass a long-term Protect America Act.

What benefit, first of all, has the act provided? And, as I say, what would be the effects, the adverse effects potentially, if the act did expire? And then, last, what are our most significant or challenging intelligence gaps and shortfalls?

Dr. Fingar, I will start with you.

Dr. FINGAR. Dr. Gingrey, let me first make clear, we are analysts and not collectors on this. So for the question, in some ways we are the wrong ones.

But as consumers of intelligence collection, I would simply note that we need all of the collection and all of the collection tools, particularly against these most difficult and most challenging threats. The legislation that is being debated deals with capabilities that are critical to our understanding of the terrorist problem.

We don't have the capacity to go into detail and provide the kind of answer that you need in terms of consequences one way or another, so I would prefer to sort of take that question back to the people who can provide a better answer.

Dr. GINGREY. Dr. Fingar, when you were asked earlier in the hearing about what you thought the biggest threat was, I think you said a global attack. Well, not a global attack, but a domestic attack by these extremists, these terrorists. And then I think Mr. Kringen, from the CIA's perspective, said that we need to worry about a nuclear attack, you know, whether it is the southern border or whatever mode of entry, something in a suitcase or a briefcase, in a laptop, whatever.

So I think that the question is very, very apropos, and maybe Mr. Cardillo would address it and Mr. Kringen.

Mr. CARDILLO. Sir, I would simply echo what Tom has laid out. That is, we obtain many different sources of information that go into our analyses. This is a key component of those sources. To the extent that it did not or was inhibited or whatnot, it would have a direct effect on our ability to understand our adversaries' capabilities and intentions, which of course equates to the threat that we are talking about.

Dr. GINGREY. Mr. Kringen—or Dr. Fingar, go ahead. I was going to specifically ask you what, as you see it, is the advantage of continuing what the Foreign Intelligence Surveillance Act (FISA) bill, the Protect America Act, as it is now passed and we hope that we will be able to continue indefinitely, to gather this information?

Dr. FINGAR. Let me approach this by the second part of the question you asked, which is on key gaps. Intentions. It is one we are continually asked, and I believe it is Mr. Larsen that raised, do we look at intentions, leadership intentions, nonstate actor intentions, particular groups of terrorists or particular groups of individuals communicating with one another. Are they seriously contemplating an action, wishing not to extrapolate from capabilities to intention or to equate propagandistic statement with genuine intent.

So getting at the true intentions of groups, including terrorist groups, including all those who would use asymmetrical means, is a very high priority and a very important gap.

The collection methodology, as I understand it, that would be covered by the Protect America Act, FISA revision, get at aspects of these critical gaps.

Mr. KRINGEN. Yes, I think in particular the concern we always have is, we have some gross understanding of what I would call operational tempo (ops tempo) by terrorist groups. What we more typically lack is what I would call plans, and operational plans in particular. And being able to get into those communications capa-

bilities, how they interact with one another, frankly, we need every tool that we can get, sir.

Dr. SNYDER. Mrs. Boyda for five minutes.

Dr. GINGREY. Mr. Chairman, thank you very much.

Ms. BOYDA. Thank you very much.

I am Mrs. Boyda, from Kansas, hello.

I had some questions regarding just trends. And I am just interested, since we have you here, five years ago where would you have assessed the threat compared to today's threat versus five years ago? And if you could look forward, where do you think the threat is going? And I also wanted to ask another question about, you know, we hear sometimes that water issue, the climate change issues, are also going to start addressing globally some stability issues. Could you address those, please?

Dr. FINGAR. This is another one that is probably worth the Rorschach approach, the crystal ball.

Five years in the past, having done these threat testimonies, it actually wasn't very different. Terrorism was at the top of the list. Because of our military superiority, there were not the kind of challenges after the demise of the Soviet Union that featured, but five years ago Saddam Hussein and his Iraq was of greater concern. And Afghanistan, Taliban, Taliban harboring al Qaeda would have been.

Five years in the future, I think cyber threat is going to be more prominent, particularly links to nonstate actors. And the increasing technical capabilities of Russia and China will make the need for countermeasures for diplomacy to get at intention, to minimize the danger of miscalculation, would be at the top of my list.

Mr. KRINGEN. Looking forward, I would add, as I think probably a major and perhaps even the major strategic challenge, what sometimes is referred to in the Washington community as the war of ideas, which is we do a reasonable job, and some days a very good job, of disrupting and dismantling terrorist organizations. But the supply of people wanting to join those organizations continues and in some areas continues to grow.

And so changing the psychological and political environment allows people to want to join those kinds of groups. It is I believe at least a 40 to 50 year problem.

Ms. BOYDA. What factors do you see effecting that?

Mr. KRINGEN. Well, some of it has to do with a variety of social factors that is very difficult for us to control. You know, alienation of Muslims from their population, their cultures in Europe, for example.

But there are other parts about, you know, kind of explaining what al Qaeda's intent really is and turning kind of their hateful acts and getting a real appreciation of that into something that discourages people from wanting to go down those paths.

I think of it in the context of what we had to do within the days of the Cold War, in which we had a U.S., in fact international bodies, that targeted kind of the soft side, shall we say, of that war. And many of the players involved in that were actually nongovernmental organizations (NGOs), labor unions and others.

And I think over time we are going to need to build that kind of infrastructure because many times it is not going to be what the

U.S. Government per se says, but the kind of interactions that they have through other people.

Mr. CARDILLO. I would only add to what my colleagues have said as we go forward, ma'am, is, to Congressman Hunter's question earlier, our access, freedom of access in space, and our dependence upon that freedom of access, should it be put at greater risk, will be a much greater interest of importance, for us to provide intelligence support to that.

Dr. FINGAR. By oversight, ma'am, I would note that proliferation concerns five years out, they will probably be in the same high position that they are today.

Ms. BOYDA. Are you talking about proliferation, actually, not only of weapons, but of fissile material that is out there?

Dr. FINGAR. I would say certainly fissile material and nuclear weapons capability.

Ms. BOYDA. What is already out there as well as new?

Dr. FINGAR. But I would also include the possibility of growth in biological warfare capabilities as examples of that kind of proliferation concern.

Ms. BOYDA. Thank you very much.

I yield back.

Dr. SNYDER. Mr. Jones for five minutes.

Mr. JONES. Mr. Chairman, thank you very much.

And gentlemen, thank you very much for your presentation.

I don't know if you have heard about the book written by Pat Buchanan, "A Day of Reckoning." I would really suggest it as, being the intellectual men that you are, that you read it. And I would tell anybody in America to read it.

This is going to lead to my question. Mr. Buchanan says in this book that a great nation that has to borrow money from foreign governments to pay its bills will not long be a great nation. I think it was Dr. Fingar that said to Mrs. Boyda's question increased capabilities of China and Russia.

Our debt with China today is $387 billion. If you factor in Hong Kong, the debt to China and Hong Kong is $440 billion. As this nation continues to send jobs overseas—three million in seven years have gone overseas—this nation continues to borrow money from foreign governments to pay its bills, what in your professional opinion will this do to the national security of this country?

Before I—one more statement, sir. I know what happened to the Soviet Union when they got in an arms race with President Reagan and this country. I know what happened to the Soviet Union when, after 10 years, they failed in Afghanistan. They might now be having an economic comeback, but it has taken many, many years, and they have suffered, the people have suffered greatly.

From a national security standpoint, is the growing debt of this Nation, and borrowing money from countries that could at some time challenge America, like China, is this a national security concern of yours?

Dr. FINGAR. I will give you an answer, but let me first disqualify myself. The question is a serious one, requiring sort of a level of understanding of our financial system, the international finances system, that is beyond my capability.

With that disqualifier, I worry about it, that the interconnected nature of the world makes it prudent for those who hold the money, those to whom we are indebted, to not disrupt it. So they don't have a complete freedom of action. Doing things that would cause the value of the dollar to decrease decreases the value of their holdings.

Yet because money is obviously important to the choices that we can make as a government, policy choices, the things we can do, the things that we don't do, our ability to fund not just our national security requirements in an old, traditional military intelligence kind of narrative, but the broader definition that John Kringen was beginning to get to in his answer, that we can't afford to do all that we as a nation would like to do.

It does make it imperative, and my final point, it seems to me, to do more things in cooperation with other nations. Burden sharing, sharing some of the costs, underscoring the mutual interests and common stake in working together to minimize the danger of the disparity and who owns what, who has the money, how might it be used. It was Mr. Hunter who mentioned money being used to purchase American firms and the concerns about technology. These are appropriate and serious concerns, sir.

Do you want to add anything, John or Robert?

Mr. KRINGEN. I think the only thing I would add, in addition, is a very specific point, which is over the years the U.S. Government has had considerable success in influencing other governments through the use of economic sanctions and financial activities. The degree to which that power is eroded and our capability to do that, means you are removing a key part of our national security toolkit.

Mr. JONES. Let me, and then I will close, Mr. Chairman, just a couple more points.

Last week we had Secretary Gates, and this is picking up on some of your comments. Secretary Gates was in here, going to Germany to try to convince the North Atlantic Treaty Organization (NATO) to help us in Afghanistan. That is a situation that is not in good shape at this point.

In addition, I brought to his attention an article in *USA Today* that said that the allies that were with us when we went into Iraq, that the allies have not paid their part. They pledged $15.8 billion to help rebuild Iraq. They have only given $2.5 billion to build Iraq. This country has already obligated $26 billion. We have an additional $16 billion that we are going to add.

I appreciate your comments and I think I understood that this, may I not put words in your mouth, but it could be an issue. But the Chinese are buying our Treasury notes at a rate we haven't seen in years, and there is nothing to say that the Chinese won't cash those Treasury notes in sooner than they mature, to take their money to put into a better investment.

I know this is not your area of expertise, but I will say to my friends in Congress on both sides of the party, that I think I did acknowledge from you, without putting words in your mouth, that this could be an issue, and an issue of blackmail that could put this country, if we don't do something about it, could put us in a box without any doors to get out.

Dr. FINGAR. What I am about to say is not to sort of diminish the seriousness of the question, but in certain respects analogies with the period of the 1980's, when it was Japan that was buying our Treasury notes at unprecedented levels, and buying properties in the United States, and a number of questions were raised, that were not questioning whether Japan would become an adversary rather than an ally. It was sort of almost neutral on a political ground, was this kind of financial arrangement troubling.

Mr. JONES. Dr. Fingar, just real quickly, my time is up——

Dr. SNYDER. Mr. Jones——

Mr. JONES [continuing]. Japan in 1980 is no China of 2007, either, by the way, militarily speaking.

Dr. FINGAR. No. Absolutely.

Mr. JONES. Thank you, sir.

Thank you, Mr. Chairman.

Dr. SNYDER. Mr. Sestak for five minutes.

Mr. SESTAK. Thanks, Mr. Chairman.

Can I follow up on Congressman Jones' question? I was actually going to ask something similar.

I was going to bring it up because I was surprised you did not talk about the threat to economic security. The intelligence community always did with the Soviet Union. I can remember many classified studies when you looked at their economy. You looked at their ethnicity of even their army.

To the point, you brought up—the only thing you brought up about China or Russia was their military. Specific case in point, you mentioned Taiwan and a concern. You remember 1996. We moved two aircraft carriers off there and their missiles didn't come down. You remember three months ago, where the Chinese, one person in the Chinese government, a fairly mid-level, said we might put more money into the euro, and our stock market dropped 300 points.

Today if something were to happen and they drop their $900 billion in public debt they own, or the $1.33 trillion in U.S. reserves they have, that is more damaging to U.S. security, I would say, than potentially some of the military conflicts that are going on.

And so I am surprised that there was not any economic security issues brought forth when you laid it down. I mean, Russia's military security, you mentioned military, toward that economic challenge, I find a great disparity, and I was glad he brought it up, because I do think that is a major issue.

But since I have time, you can answer, if they will give me another five—I will come back again. The question I was taken with, sir, when you were here before, in the NIE, is Iran. The key line in that NIE for me was this, that showing that, and you used the words today, "It was the response to international pressure that they stopped." And then your NIE went on to say, "It shows that Iran does do its foreign policy analysis under a rational decision-making process." That was key.

Do you think in your assessment, then, that we should be trying to deal more diplomatically with Iran, whether it is Iraq, Afghanistan, weapons of mass destruction, than we are today? And I asked you that question also the first time you were here that I had been on this panel with regards to your assessment that Iraq would spi-

ral into chaos in 18 months if we withdrew in 18 months. And I asked you if we had dealt with Iran at that time, would it have made a difference. And you said, "I would have to think that over, but it would make a difference."

So should we be approaching Iran differently than we do in view of that, I felt, quite insightful statement in your NIE?

Dr. FINGAR. Let me make two points and invite others to come in here, that I am very glad that you pointed to that important judgment of the estimate, that the wording used was that Iran employs a cost-benefit analysis. And we drew a contrast with earlier assessments of the intelligence community that had Iran determined to acquire nuclear weapons, almost without regard, that was an irreversible decision. That this estimate says they pulled back on the dimension of it, and they said it was in response to this international scrutiny and pressure.

One thing that has changed since we were here with you last time is that we have begun in the embassy in Baghdad limited direct discussions with the Iranians on their involvement in Iraq. It is a mixed bag from my perspective. that these discussions do not yet appear to have produced the results that certainly I would have hoped for in terms of diminution of their provision of weaponry and involvement in Iraq.

Whether one can extrapolate from that narrowly focused by design discussion to a larger, if Iran could be made less concerned about its security and feel less need for asymmetric ways to enhance its security, terrorism at one end, nukes at the other, might other things be possible. This estimate suggests yes.

Dr. SNYDER. Mr. Conaway for five minutes.

Mr. CONAWAY. Thank you, Mr. Chairman.

Gentlemen, thank you for being here. I apologize for only being here for part of what is going on, so if I repeat something——

Three areas, one would be Saturday we had a Russian Tupolev bomber fly directly across the Nimitz. That hadn't happened much since the Cold War. Your assessment of what Putin was trying to do, if that was intentional, if he is overall trying his positions.

Second would be, foreign investment in technology, U.S. technology companies, your role with the—I forgot the acronym of the committee that oversees that——

Dr. FINGAR. CFIUS.

Mr. CONAWAY. CFIUS. Thank you.

Your role with that, to make sure that they are not—or that we understand what happens when they make those investments, which are going to be difficult to not let happen, but we ought to know what those circumstances are.

And third would be, if you have time, continued efforts within the European community to convince them how credible this threat of Islamic jihadism really is and if they are—it is in their best interest as well as ours for them to stay engaged and become more engaged with it.

Dr. FINGAR. Robert, do you want to take the first one? And then I will ask John Landry to take the CFIUS one.

Mr. CARDILLO. Sir, with respect to the flyover, we see that as a continuation of some activity that has picked back up in the last

couple of years. These are out-of-area deployments, put their carrier in the Mediterranean not too long ago.

In some ways, they are showpieces, sir, to make a statement that their military is on the way back and that they intend to use or project that power as part of their influence around the world.

We don't see it as overly concerning in a sense of recovery, if you will, of that military force, but it is a trend that we obviously take great note of and great interest and apply a great deal of our analysis against it.

Mr. LANDRY. Sir, with regard to the issue of CFIUS, we have a cell within my shop that essentially handles those, but we rely upon input from the remainder of the community.

Last year we did about 160 of those what we call threat assessments. The one observation I would make is we do threats. The remainder of CFIUS, and we are not a voting member of CFIUS, we are an adviser, essentially conducts the vulnerability assessments and the risk assessments. We provide essentially expert assistance to them in terms of intelligence assistance, but don't conduct those ourselves.

Mr. CONAWAY. Before you move on to that third one, would you recommend a greater role for your shop in the process, given the circumstances?

Mr. LANDRY. Sir, we are very satisfied exactly with our role at the moment.

Mr. CONAWAY. Okay. Thank you.

Mr. KRINGEN. On the issue of cooperation with the European governments on terrorism, I recently traveled to Europe and met with four different governments. All those four governments are very serious about the challenge they have. In each case, they see the threat perhaps slightly differently. But in terms of the focus on the issue, the investment of resources, we have seen a continued expansion of their investments.

Part of this is driven by real-world events in their own backyard. A Danish plot in the fall of last year, a German plot involving the Islamic Jihad Union (IJU) and, of course, continuing things going on in Spain and Italy.

So I think there is a very good appreciation for it. There are, however, some constraints that have to do with the way in which their legal systems work and other things that in some cases make it more difficult to make them partners. But it is not a question of will, and by and large it is not a question of investment or capability. It is a question of how they can take the right action within the context of the legal regimes that they have.

Mr. CONAWAY. Thank you, Mr. Chairman. I yield back.

Dr. SNYDER. Thank you.

I am going to take my five minutes now, and then we will go to Mr. Lamborn.

Dr. Gingrey, Dr. Fingar, was asking you questions about the FISA bill and the renewal, and as I understood what you were saying, is that you are currently satisfied with the intelligence gathering and the information you are getting, would not be very happy if this bill were to expire. And I join the chorus of those who think we need to continue the currently law.

Am I hearing you correctly, that it would not be helpful to you all if we were to have a gap between the expiration of the current one and the start of the new one? Is that a fair statement?

Dr. FINGAR. Yes, it is. And I understand that we will be providing a classified statement for the record. One was not initially requested, but we will provide it. And in that statement, there are examples of how this collection has been helpful to us.

Dr. SNYDER. Well, and of course, this is not in your lane, but I saw the President's statement this morning, in which he said he would not accept a 21-day extension. And I am just very perplexed by that. I mean, your statement is very clear, that the current law is working, and sometimes, you know, the legislative process is not like trains and boats on a schedule, and so I don't know why there would be objection to a three-week extension if we saw that we were not able to get this completed this week. And that is what I took from your previous statement.

I wanted to ask a question about Iran. One of the issues that comes upon Iran is their discussions that they need a nuclear energy program, and then our response is yes, but you are a great oil country. But then they do have some fuel shortage issues going on now. Is that correct? Would you help me understand the relationship from the energy side between their desire for nuclear energy and why they are having some struggles right now with satisfying the natural gas, or whatever gasoline shortages that they have.

Mr. KRINGEN. I will let Tom talk more about the nuclear side, but on the petroleum side, the issues really are refining capacity. In other words, it is not——

Dr. SNYDER. Did you say refining capacity?

Mr. KRINGEN. Refining capacity. In other words, they have to purchase a lot of their refined products from overseas because they lack sufficient domestic capacity to do so, and that reflects years of underinvestment in that capability, as well as the fact that, frankly, put it this way, cheap gasoline is regarded as a national right in Iran, and therefore it is underpriced relative to what it could get on the world market, which means they consume more of it than they otherwise would.

Dr. SNYDER. How about natural gas as a commodity? Is that in abundant supply?

Mr. KRINGEN. Just in general, yes, there are a number of programs that are, I would say, underdeveloped now, but they have a very aggressive program to develop more natural gas in the future, some of which involves foreign investors.

Dr. SNYDER. Any comments, Mr. Cardillo or Dr. Fingar?

Mr. CARDILLO. No, sir.

Dr. FINGAR. Let me just add two things. What the Iranians say, and I think this is to be taken mostly at face value, is that they have oil and they have gas, which is a primary source of foreign exchange earnings. It is what they have to export to earn the wherewithal to support this large and growing population.

They also argue that nuclear power would diversify their portfolio. They have very real electricity needs.

I think beyond the desire to maximize exports by having alternative sources of power generation, there is a political prestige, my

words, not theirs, that if they are in compliance with the international control regimes for nuclear power, that they should be allowed to have it, like any other state in compliance.

And I should hasten to add that they are not in compliance with the United Nations Security Council resolutions with respect to their centrifuge program.

Dr. SNYDER. I misspoke.

Mr. Saxton is ahead of Mr. Lamborn.

Mr. Saxton for five minutes.

Mr. SAXTON. Mr. Chairman, thank you.

First of all, let me apologize for not having been here except for off and on all day. The votes and other things have kept some of us away, and this is obviously a very important hearing and one that we should all participate in and pay attention to.

I am told while I wasn't here today you—someone asked a question about the most serious threat to the American homeland and the American citizens, and the reply was probably without a doubt terrorism.

Recently I was doing some reading and I came across a book that talked about the mindset of insurgents and the mindset of terrorists and the mindset of al Qaeda relative to where they choose to make their activities felt. And very simply stated, the message was that they watch for opportunities where success is likely and act on those opportunities. And they also identify, my words, targets that are too difficult to attack with some degree of certainty and avoid those targets.

That makes sense to me. And I just wondered if you could talk about that in the context of today's world events and what you see happening, perhaps in Afghanistan, what you see happening in Iraq, how Pakistan may play into that theory, if you will, of watching for opportunities and acting on those opportunities, watching for targets that are perhaps too difficult to attack that they might otherwise like to, and avoiding those kinds of targets.

It is a very good question. I am going to invite Ted Gistaro, the National Intelligence Officer for Transnational Threats, to answer that.

Mr. GISTARO. Sir, I would make two points. One, as Dr. Kringen pointed out, what we are seeing in Europe. Al Qaeda continually puts operatives and plots into the pipeline. I think they are constantly trying to conduct attacks. We have just been very fortunate, through the hard work of the United States government and our allies overseas, in stopping those attacks. But they are always putting plots into the pipeline.

With regard to target selection, we know from detainee reporting that they do see the United States in particular as being a harder target, that the things that we have done offensively and defensively in this country make it more difficult for them to attack us here. Yet that has not stopped them from trying to do so.

And I would go back to the 2006 summer aviation plot that we stopped a matter of weeks from occuring. Despite everything we have done to harden our aircraft and make aircraft plots more difficult, they remain fascinated with aviation as both a target and as a weapon. And they spend a lot of time thinking creatively about how to get even at the hardest targets.

Mr. KRINGEN. If I could just add one point on the last, is that leads them, then, to an evolution of tactics and an ability to learn. We saw in Iraq the use of suicide bombers. We are now seeing that being applied within Afghanistan, and we are now seeing it being applied within Pakistan. So they have been able to learn and adjust their tactics.

In Iraq, for example, what we have seen is a real shift from what used to be vehicle bombs to now individual bombers, and that is intended, frankly, to get around the security procedures that the coalition and the Iraqi government have put in place and to be able to go after those sorts of soft targets I think that were being alluded to in the book you referenced.

Mr. CARDILLO. I would just add, sir, a fine point on the learning piece of it. Suicide bombers, vehicle-borne, and now what we are seeing more and more in Iraq is quite dangerous to our deployed forces are house-borne Improvised Explosive Devices (IEDs). As we go through and clear after an operation, more and more we are seeing those now being booby-trapped and set for just that activity, to inhibit our ability to clear an area after an operation.

Dr. SNYDER. Mr. Lamborn for five minutes.

Mr. LAMBORN. Thank you.

Let me call attention to Page 12, Mr. Fingar, of your annual threat assessment. And I see something in there that, frankly, troubles me. And this was also part of the NIE that came out, regarding the change of policy with Iran and its weaponization program, although apparently not its nuclear enrichment program in 2003. Because on the page before, on Page 11, it does say that in the fall of 2003, according to this, Tehran halted its nuclear weapons design and weaponization activities. And then the first full paragraph on Page 12 says, "We judge with high confidence that the halt was directed primarily in response to increasing international scrutiny and pressure resulting from exposure of Iran's previously undeclared nuclear work."

And something else happened in 2003 which was very momentous next door, in Iraq, and that was the invasion of Iraq and the deposing of Saddam Hussein. And yet here that is not even mentioned as something that would have anything to do with their apparently withdrawing from some of their weaponization plans.

Don't you think that that was a factor also?

Dr. FINGAR. We certainly think it was a factor. In the full classified NIE, the reason for the choice of the wording here is made clearer. But was the presence of U.S. troops next door in Iraq a factor? Was the Libyan decision to give up its nuclear program a factor? Was the fall of the Taliban, an adversary of Iran, in the east, a factor? Many things, the EU–3 negotiations, building U.N. Security Council, that concern about isolation, being alone and dealing with us militarily or diplomatically, I think has to be brought into the equation, not simply troops next door, rumors or expectations of Iran was next. Was that a factor? It had to be. There were reasons we chose the wording that we did, which I would be happy to explain separately.

Mr. LAMBORN. Thanks for explaining that, and I am still somewhat perplexed that that was not given more prominence.

My other question had to do with Syria. On Page 24 and 25, there are several items that are mentioned in connection with Syria, but one thing that is not mentioned is the bombing by Israel recently of a facility of some type in Syria, and there is talk that that is being resumed, that the construction and rebuilding of that facility is being resumed.

In this particular setting, is there anything that you could add or elaborate on?

Dr. FINGAR. No, there is nothing we can talk about in this setting, Mr. Lamborn.

Mr. LAMBORN. Okay. Thank you. That concludes my time.

I yield back, Mr. Chairman.

Dr. SNYDER. Thank you.

Mr. Hunter.

Mr. HUNTER. Gentlemen, please accept my apologies for having to step out. It is just too bad we have had this hearing cut up into pieces today, because I think it is very important for us.

Let me go to an issue I don't think you have addressed in the previous questions. If you have, my apologies. But China. The emergence of China as a military power, at some point approaching the status of superpower, with the F10 multi-role fighters that they are now producing in some numbers, I think the SU27 they are doing in co-production with the Russians, the hundred or so ballistic missiles they are fielding each year, most of them staged in the Taiwan area, the heralded knocking down of a satellite with the first demonstrated anti-satellite (ASAT) capability last January. But especially in the area of submarines.

The Chinese now have 63 submarines to the best of our knowledge. They are out-producing us by between three and five a year, depending on whether you add their foreign military acquisitions of kilos from the Russians to their own production. I think their own production is about two-and-a-half to three a year.

They clearly are moving ahead in submarine development, and we are right now fielding, I believe we have got right at 49 attack boats. We have laid down in this last analysis that 48 is rock bottom. And yet at the rate that we are producing, we are going to be going for about 12 or 13 years, we will be fielding a force of about 40 submarines. So we are going way down. And you see an emerging submarine capability being developed by China.

Any thoughts on that and any thoughts on guidance that you would give those that are shaping America's naval forces for the future?

Mr. CARDILLO. Sir, first of all, you said it very well. This is a growing serious threat, especially along the lines of their missile capability and their deployment patterns. And as I discussed earlier, we believe that is in concert with their intent to deny us access to the region in general, to Taiwan specifically.

And so the submarine activity that you laid out, sir, is in sync with that overall intention. It is, as you probably know, of highest import to both our command in the Pacific and the U.S. Navy in particular, as to how they are going to counter that intent. And we work very diligently to provide assessments on how we can identify and exploit vulnerabilities in the Chinese build up, sir.

Mr. HUNTER. Would you recommend increasing the U.S. submarine force?

Mr. CARDILLO. Well, sir, I wouldn't feel qualified to say that directly. We provide our assessment of the threat to the Department. It gets fed into the navy's program. Yes, sir.

Mr. HUNTER. Fair enough.

Thank you, Mr. Chairman. Appreciate it.

Dr. SNYDER. Mr. Franks for five minutes.

Mr. FRANKS. Thank you, Mr. Chairman. I am glad I got here early.

Mr. Fingar, I know that this has probably come up a number of times earlier in the hearing, and I just would like to suggest that the NIE report that we had on Iran, even though if one reads it carefully I think you come to a different conclusion than has been largely disseminated in the media, but I think it has caused us some pretty profound damage in terms of being able to deal with the potential of a nuclear Iran.

And so I guess what I would like to ask you, sir, is given, just for clarity, even if it is redundant—perhaps I should put it this way. It is my perspective that, after reading the, that Iran, given the fact that they are continuing to enrich uranium, and that everybody agrees on that, our inspectors agree on that, that they are not reduced even by one day their potential of gaining a nuclear capability in terms of weapons at some point. That this report, even though their ostensible weapons program has been suspended, that that can be restarted at such a time when the fissile material development would be sufficient that they could continue forth, if they chose.

So is it true that the NIE report, if read carefully, does not mean that Iran has been reduced in their capacity even by one day in gaining a nuclear weapons capability?

Dr. FINGAR. I wouldn't put it exactly as you did——

Mr. FRANKS. How would you put it?

Dr. FINGAR [continuing]. In terms of the one day, because there are things that we don't know about the state of the program.

But your larger point is accurate. They have the capacity to resume a weapons program with a decision that could be made at any time.

The timelines that we have that are dependent on fissile material and estimates about how long it would take to convert that material, to have it for a device, something that will explode, would suggest that, yes, they are operating in a cushion where it might not make much difference.

But I would like to take a few minutes of your time——

Mr. FRANKS. I have got four.

Dr. FINGAR [continuing]. And ask my colleagues, because I gave a lengthy explanation. I think it is useful to hear the same kind of question approached from my colleagues.

Mr. FRANKS. Okay.

Mr. KRINGEN. I would concur with Tom's statement, which is I don't think we could say it literally would not change their ability to get a weapon within a day, but if you look——

Mr. FRANKS. Could they not—forgive me——

Mr. KRINGEN [continuing]. If you look at the estimated timelines for a nuclear capability, that is essentially the same.

Mr. FRANKS. Unchanged.

Mr. KRINGEN. Unchanged from before.

The other factor I would highlight, and it goes back to the motivations for why we think they stopped their weaponization program, had to do with their feeling unde pressure at the time.

Mr. FRANKS. The greatest army in the world had just marched into Iraq.

Mr. KRINGEN. And there were all kinds of other pressures as well. The fact of the matter is, those pressures are now removed, and nothing we see or know says that they have foregone forever building this capability.

Mr. FRANKS. Thank you.

Mr. CARDILLO. I would just add, sir, another underplayed piece of the way it was interpreted when it was released is that the decision to go nuclear, to have a weapon, is theirs. We believe they have the technical wherewithal to do so, pending that decision.

And so in great measure, that timeline is theirs.

Mr. FRANKS. Let me ask kind of two questions at once, because I am afraid I will run out of time. And you can each of you answer it. I will start with Mr. Fingar again.

Is it possible that if Iran is able to develop a nuclear missile capability, in other words to develop their fissile material and to weaponize it to make it something that, to use your words, can explode, and put it on a missile, isn't it also possible that that technology can be translated fairly quickly into, like, a nuclear IED in laymen's terms, as something that could be an ideal terrorist weapon to bring into this country in ways that could effect us in a very profound sense? And what do you think our policy should be in America as far as allowing a nuclear Iran?

Dr. FINGAR. Again, I will be very brief so others can comment. That the ability to make a device that is deliverable by missile means you have got an ability to make something that is fairly small. And nuclear weapons, nuclear material, is very hard to detect at a distance. We don't have a capability to do that. So, yes, it would be very simple.

The other point I would add, though, is a nuclear-armed Iran would be very destabilizing to the region. There is almost certain to be a response by some, perhaps many, of its neighbors.

Dr. SNYDER. Mr. Sestak, we will give you a bite of the apple, but it has got to be about a one-minute bite.

Mr. SESTAK. Thank you very much.

Two quick questions. The first one: Is the government set up really to address cyberspace? We all know about the interagency process, and this is not an National Security Agency (NSA) issue alone. It kind of goes across the board. Just kind of a five second "yes" or "no."

Dr. FINGAR. This will be, you know, presented up here, I believe it is this week, by the director of National Intelligence. The White House has issued a directive, and there are rollout sessions.

Mr. SESTAK. It is very obvious Congress is not set up for it. I mean, you can't find a single bellybutton for cyberspace.

Same question I had, very quickly, then, is I was a little confused, and it is probably my reading. You say the most dangerous threat is al Qaeda, the one that is over on the ungoverned borders. You say the most capable threat in al Qaeda is al Qaeda in Iraq (AQI). You only used the term homeland, coming against the homeland, with the one along the ungoverned borders. You even then go into your testimony and said, you know, I am concerned that as we kind of continue to squeeze AQI, that they may shift their resources over here, which is exactly the opposite of what some people said we were going to do. We were going to keep them over there so we don't send them here.

It sounds to me as though the trend is that AQI is not dangerous to us right now, but it could be if we continue to squeeze them there. Did I read that correctly?

Mr. KRINGEN. I would phrase it that way. What I would say is where we see al Qaeda in Iraq right now is, because it is under pressure, it is actually to a large degree focusing on internal Iraqi targets.

The other issue is——

Mr. SESTAK. And that is what you mean, where it is most capable is right there?

Mr. KRINGEN. Yes.

Mr. SESTAK. Not against us at the homeland.

Mr. KRINGEN. Not against us. But also what we are seeing are some signs, and I wouldn't say large numbers——

Mr. SESTAK. You said about 100 people.

Mr. KRINGEN. You are seeing some people who are kind of saying maybe this is not the place in which to engage in jihad and to be looking for opportunities outside of——

Mr. SESTAK. I understand. So it just kind of looks as though with that said, we have got to fight there in order to have al Qaeda here—our fighting there is actually going to be sending them over against us. If we are successful. If your trend bears out.

Mr. KRINGEN. I am not sure I would agree with the conclusion.

Mr. SESTAK. You understand it?

Mr. KRINGEN. I understand.

Mr. SESTAK. Thank you very much.

Dr. SNYDER. Thank you, Mr. Sestak.

Thank you gentlemen.

We have votes, you need to eat lunch. We appreciate your service. We appreciate your time with us today.

The committee hearing is adjourned.

[Whereupon, at 12:21 p.m., the committee was adjourned.]

A P P E N D I X

FEBRUARY 13, 2008

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

FEBRUARY 13, 2008

Annual Threat Assessment of the

Intelligence Community

for the House Armed Services Committee

13 February 2008



Dr. Thomas Fingar

Deputy Director of National Intelligence for Analysis

February 13, 2008

HOUSE ARMED SERVICES COMMITTTEE

FEBRUARY 2008
INTELLIGENCE COMMUNITY
ANNUAL THREAT ASSESSMENT

UNCLASSIFIED
STATEMENT FOR THE RECORD

INTRODUCTION

Chairman Skelton, Ranking Member Hunter, Members of the Committee, thank you for the invitation to offer my assessment of threats to US national security. I am pleased to be accompanied today by Robert Cardillo, Deputy Director for Analysis, DIA and John Kringen, Director of Intelligence, CIA.

Before I talk about specific threats, I want to raise an issue of immediate importance for the functioning of the Intelligence Community and protection of the nation. The authorities granted by the Protect America Act (PAA)—which temporarily closed gaps in our intelligence collection and allowed the Intelligence Community to conduct foreign intelligence surveillance—are critical to our intelligence efforts to protect the Nation from current threats. Briefly, some of the most important benefits include:

- Better understanding of international al-Qa'ida networks;
- Greater insight into future terrorist plans that have allowed us to disrupt attacks;
- More extensive knowledge of instructions to foreign terrorist associate about entering the United States
- Information on efforts to obtain guns and ammunition
- Knowledge on terrorist money transfers.

Expiration of the Act would lead to the loss of important tools the Intelligence Community relies on to discover the plans of our enemies. Merely extending the PAA without addressing retroactive liability protection for the private sector will likely have far reaching consequences for the Intelligence Community. At the request of members of Congress, the DNI has provided letters discussing these matters in greater depth.

For almost two years, senior leaders of the IC have testified in both open and closed hearings about the critical role of private parties in ensuring our citizens are safe, and the need to provide liability protection to those who provided assistance after the attacks of September 11. If we are not able to address this issue, I believe it will severely degrade the capabilities of our Intelligence Community to carry out its core missions of providing warning and protecting the country.

In turning to the threats, the judgments that I will offer the Committee in these documents and in my responses to your questions are based on the efforts of thousands of patriotic, highly skilled professionals, many of whom serve in harm's way. I am pleased to report that the Intelligence Community is even better than it was last year as a result of the continuing implementation of reforms required by the Intelligence Reform and Terrorism Prevention Act of 2004. This Statement is, in part, a product of our moving forward with the transformation of US intelligence, including more innovative and rigorous analysis and wider and more far-reaching collaboration.

You will see from the testimony that many of the key topics I touch on are not traditional "national security" topics.

Globalization has broadened the number of threats and challenges facing the United States. For example, as government, private sector, and personal activities continue to move to networked operations and our digital systems add ever more capabilities, our vulnerability to penetration and other hostile cyber actions grows. The nation, as we indicated last year, requires more from our Intelligence Community than ever before and consequently we need to do our business better, both internally, through greater collaboration across disciplines and externally, by engaging more of the expertise available outside the Intelligence Community.

Many of the analytic judgments I present here have benefited from the increasing integration of collection and analysis. Our systematic effort to synchronize requirements across the national intelligence, defense, Homeland security and federal law enforcement communities ensures collection assets will be better utilized and the collection community will be able to mount efforts to fill the gaps and needs of analysts. This more integrated Community approach to analysis and collection requirements is part of the DNI's plan to transition the IC from a federation of independent intelligence organization to a more integrated enterprise; the beginning results of this new approach are reflected in the more nuanced and deeper analysis of the challenges and threats facing the US.

Against this backdrop, I will focus my statement on the following issues:

- The continuing global terrorist threat, but also the setbacks the violent extremist networks are experiencing;
- The significant gains in Iraqi security since this time last year and the developing political and economic improvements;
- The continuing challenges facing us in Afghanistan and in Pakistan, where many of our most important interests intersect;
- The persistent threat of WMD-related proliferation:
    - Despite halting progress towards denuclearization, North Korea continues to maintain nuclear weapons;
    - Despite the halt through at least mid-2007 to Iran's nuclear weapons design and covert uranium conversion

and enrichment-related work, Iran continues to pursue fissile material and nuclear-capable missile delivery systems.

- The vulnerabilities of the US information infrastructure to increasing cyber attacks by foreign governments, nonstate actors and criminal elements;

- The growing foreign interest in counterspace programs that could threaten critical US military and intelligence capabilities;

- Issues of political stability and of national and regional conflict in Europe, the Horn of Africa, the Middle East, and Eurasia;

- Growing humanitarian concerns stemming from the rise in food and energy prices for poorer states;

- Concerns about the financial capabilities of Russia, China, and OPEC countries and the potential use of their market access to exert financial leverage to achieve political ends.

TERRORISM

Let me start by highlighting a few of our top successes in the past year. Most importantly, there was no major attack against the United States or most of our European, Latin American, East Asia allies and partners. This was no accident.

Last summer, for example, with our allies, we unraveled terrorist plots linked to al-Qa'ida and its associates in Denmark and Germany. We were successful because we were able to identify key plotters. We worked with our European partners to monitor the plotters and disrupt their activities. In addition, our partners throughout the Middle East and elsewhere continued to attack aggressively terrorist networks recruiting, training, and planning to strike American interests. The death last week of Abu Layth al-Libi, al-Qa'ida's charismatic senior military commander and a key link between al-Qa'ida and its affiliates in North Africa, is the most serious blow to the group's top leadership since the December 2005 death of then external operations chief Hamza Rabi'a.

Al-Qa'ida in Iraq (AQI) suffered major setbacks last year, although it still is capable of mounting lethal attacks. Hundreds of AQI leadership, operational, media, financial, logistical,

weapons, and foreign fighter facilitator cadre have been killed or captured. With much of the Sunni population turning against AQI, its maneuver room and ability to operate have been severely constrained. AQI's attack tempo, as measured by numbers of suicide attacks, had dropped by more than half by year's end after approaching all time highs in early 2007. We see indications that al-Qa'ida's global image is beginning to lose some of its luster; nonetheless, we still face multifaceted terrorist threats.

AL-QA'IDA

Al-Qa'ida and its terrorist affiliates continue to pose significant threats to the United States at home and abroad, and al-Qa'ida's central leadership based in the border area of Pakistan is its most dangerous component. Last July, we published a National Intelligence Estimate titled, "*The Terrorist Threat to the US Homeland*," which assessed that al-Qa'ida's central leadership in the past two years has been able to regenerate the core operational capabilities needed to conduct attacks in the Homeland:

- Al-Qa'ida has been able to retain a safehaven in Pakistan's Federally Administered Tribal Areas (FATA) that provides the organization many of the advantages it once derived from its base across the border in Afghanistan, albeit on a smaller and less secure scale. The FATA serves as a staging area for al-Qa'ida's attacks in support of the Taliban in Afghanistan as well as a location for training new terrorist operatives, for attacks in Pakistan, the Middle East, Africa, Europe and the United States.

- Using the sanctuary in the border area of Pakistan, al-Qa'ida has been able to maintain a cadre of skilled lieutenants capable of directing the organization's operations around the world. It has lost many of its senior operational planners over the years, but the group's adaptable decisionmaking process and bench of skilled operatives have enabled it to identify effective replacements.

- Al-Qa'ida's top leaders Usama Bin Ladin and Ayman al-Zawahiri continue to be able to maintain al-Qa'ida's unity and its focus on their strategic vision of confronting our allies and us with mass casualty attacks around the globe. Although security concerns preclude them from the day-to-day running of the organization, Bin Ladin and Zawahiri regularly pass inspirational messages and specific

operational guidance to their followers through public statements.

- Al-Qa'ida is improving the last key aspect of its ability to attack the US: the identification, training, and positioning of operatives for an attack in the Homeland. While increased security measures at home and abroad have caused al-Qa'ida to view the West, especially the US, as a harder target, we have seen an influx of new Western recruits into the tribal areas since mid-2006.

We assess that al-Qa'ida's Homeland plotting is likely to continue to focus on prominent political, economic, and infrastructure targets designed to produce mass casualties, visually dramatic destruction, significant economic aftershocks, and/or fear among the population.

CBRN THREAT FROM AL-QA'IDA

We judge use of a conventional explosive to be the most probable al-Qa'ida attack scenario because the group is proficient with conventional small arms and improvised explosive devices and is innovative in creating capabilities and overcoming security obstacles. That said, al-Qa'ida and other terrorist groups are attempting to acquire chemical, biological, radiological, and nuclear weapons and materials (CBRN). We assess al-Qa'ida will continue to try to acquire and employ these weapons and materials; some chemical and radiological materials and crude weapons designs are easily accessible, in our judgment.

AL-QA'IDA AFFILIATES

Al-Qa'ida's affiliates from Africa to Southeast Asia also pose a significant terrorist threat. I will discuss the success we are having against al-Qa'ida in Iraq (AQI) as part of the larger discussion of the Intelligence Community's analysis of the Iraq situation, but here I would like to highlight that AQI remains al-Qa'ida's most visible and capable affiliate. I am increasingly concerned that as we inflict significant damage on al-Qa'ida in Iraq, it may shift resources to mounting more attacks outside of Iraq.

Although the ongoing conflict in Iraq will likely absorb most of AQI's resources over the next year, AQI has leveraged its broad external networks—including some reaching into Europe—in support of external operations. It probably will continue to devote some effort towards honoring Bin Ladin's request in 2005 that AQI attempt to strike the United States,

affirmed publicly by current AQI leader Abu Ayyub al-Masri in a November 2006 threat against the White House.

- AQI tactics, tradecraft, and techniques are transmitted on the Internet, but AQI documents captured in Iraq suggest that fewer than 100 AQI terrorists have moved from Iraq to establish cells in other countries.

AQIM. Al-Qa'ida's other robust affiliate, al-Qa'ida in the Lands of the Islamic Maghreb (AQIM), is the most active terrorist group in northwestern Africa. We assess it represents a significant threat to US and European interests in the region. AQIM has continued to focus primarily on Algerian Government targets, but since its merger with al-Qa'ida in September 2006, the group has expanded its target set to include US, UN, and other interests. AQIM likely got a further boost when the al-Qa'ida central leadership announced last November that the Libyan Islamic Fighting Group united with al-Qa'ida under AQIM's leadership. Two simultaneous suicide car bomb attacks in Algiers in December killed nearly 70 people and marked AQIM's highest profile act of violence to date. Improvements in AQIM's use of improvised explosive devices (IEDs) suggest the group is acquiring knowledge transmitted from extremists in Iraq.

AQIM traditionally has operated in Algeria and northern Mali and has recruited and trained an unknown, but probably small, number of extremists from Tunisia, Morocco, Nigeria, Mauritania, Libya, and other countries. Although the degree of control that AQIM maintains over former trainees is unclear, the IC assesses some of these trainees may have returned to their home countries to plot attacks against local and Western interests.

Other Affiliates Worldwide. Other al-Qa'ida regional affiliates kept a lower profile in 2007, but we judge that they remain capable of conducting attacks against US interests. Al-Qa'ida is active on the Arabian Peninsula and presents a long-term threat to both Western and host nation interests there, particularly in Saudi Arabia, UAE, and Yemen. In 2007, Saudi authorities detained over 400 extremists, highlighting both the threat and the Kingdom's commitment to combating it. We judge al-Qa'ida will continue to attempt attacks in the Arabian Peninsula, particularly in Saudi Arabia, Yemen, United Arab Emirates, and Bahrain.

The Intelligence Community (IC) assesses al-Qa'ida-associated groups and networks in **Lebanon** pose a growing threat to Western interests in the Levant. In **East Africa**, the Ethiopian invasion of Somalia disrupted al-Qa'ida in East Africa (AQEA) operations and activities, but senior AQEA operatives responsible for the 1998 US Embassy bombings and the 2002 attacks in Mombassa, Kenya, remain at large. The IC assesses Jemaah Islamiya (JI) in Indonesia and the Abu Sayyaf Group (ASG) in the Philippines—which have historic links to al-Qa'ida and have killed over 400 people—are the two terrorist groups posing the greatest threat to US interests in **Southeast Asia**. The IC assesses that **Pakistan-based** Lashkar-e-Tayyiba (LT) and other Kashmir-focused groups will continue attack planning and execution in India. Shia and Hindu religious observances are possible targets, as are transportation networks and government buildings. We judge Kashmir-focused groups will continue to support the attacks in Afghanistan, and operatives trained by the groups will continue to feature in al-Qa'ida transnational attack planning.

BUT AL-QA'IDA'S REPUTATION IS DIMMING

The brutal attacks against Muslim civilians unleashed by AQI and AQIM and the conflicting demands of the various extremist agendas are tarnishing al-Qa'ida's self-styled image as the extremist vanguard. Over the past year, a number of religious leaders and fellow extremists who once had significant influence with al-Qa'ida have publicly criticized it and its affiliates for the use of violent tactics.

- Usama Bin Ladin's public statement about Iraq in October—in which he admitted that AQI made mistakes and urged it to reconcile with other Iraqi insurgent groups—provoked controversy on extremist Internet discussion forums. Likewise, deputy al-Qa'ida chief Ayman al-Zawahiri has been criticized by supporters for perceived contradictions in his public statements about HAMAS and softness toward Iran and the Shia.

THE "HOMEGROWN" THREAT

Over the next year, attacks by "homegrown" extremists inspired by militant Islamic ideology but without operational direction from al-Qa'ida will remain a threat to the United States or against US interests overseas. The spread of radical Salafi Internet sites that provide religious justification for attacks, increasingly aggressive and violent anti-Western rhetoric and actions by local groups, and the growing number of radical, self-generating cells in Western countries that identify

with violent Salafi objectives, all suggest growth of a radical and violent segment among the West's Muslim populations. Our European allies regularly tell us that they are uncovering new extremist networks in their countries.

While the threat from such homegrown extremists is greater in Europe, the US is not immune. The threat here is likely to be fueled in part by propaganda and mischaracterizations of US foreign policy as harmful to Muslims, rather than by any formal assistance from al-Qa'ida or other recognized groups. The al-Qa'ida-propagated narrative of an "us versus them" struggle serves both as a platform and a potential catalyst for radicalization of Muslims alienated from the mainstream US population.

A small, but growing portion of al-Qa'ida propaganda, is in English and is distributed to an American audience—either in translated form or directly by English-speaking al-Qa'ida members like Adam Gadahn, the American member of al-Qa'ida who, in early-January, publicly urged Muslims to use violence to protest the President's Middle East trip. Bin Ladin's September 2007 "message to the American people" and Zawahiri's May 2007 interview include specific US cultural and historical references almost certainly meant to strike a chord with disaffected US listeners.

Disrupted plotting over the past 14 months in New Jersey and Illinois highlights the diverse threat posed by Homeland-based radical Muslims inspired by extremist ideology. A group of European and Arab Muslim immigrants arrested last May for planning to attack Fort Dix, New Jersey, used a group member's familiarity with the US Army base to determine their target. In Illinois, the FBI arrested US Muslim convert Derrick Shareef in December 2006 as he attempted to obtain weapons for a self-planned, self-executed terrorist attack against a shopping mall in Rockford.

To date, cells detected in the United States have lacked the level of sophistication, experience, and access to resources of terrorist cells overseas. Their efforts, when disrupted, largely have been in the nascent phase, and authorities often were able to take advantage of poor operational tradecraft. However, the growing use of the internet to identify and connect with networks throughout the world offers opportunities to build relationships and gain expertise that previously were available

only in overseas training camps. It is likely that such independent groups will use information on destructive tactics available on the Internet to boost their own capabilities.

WMD PROLIFERATION: KEY STATES OF CONCERN

In addition to terrorism, the ongoing efforts of nation-states and terrorists to develop and/or acquire dangerous weapons and delivery systems constitute major threats to the safety of our nation, our deployed troops, and our friends. We are most concerned about the threat and destabilizing effect of nuclear proliferation. We also are concerned about the threat from biological and chemical agents.

WMD use by most nation states is traditionally constrained by the logic of deterrence and by diplomacy, but these constraints may be of less utility in preventing the use of mass-effect weapons by terrorist groups. The time when only a few states had access to the most dangerous technologies has been over for many years. Technologies, often dual-use, circulate easily in our globalized economy, as do the scientific personnel who design and use them. The IC works with other elements of the US Government on the safeguarding and security of nuclear weapons and fissile material, pathogens, and chemical weapons in select countries.

We assess that some of the countries that are still pursuing WMD programs will continue to try to improve their capabilities and level of self-sufficiency over the next decade. We also are focused on the potential acquisition of nuclear, chemical, and/or biological weapons—or the production technologies and materials necessary to produce them—by states that do not now have such programs, by terrorist organizations such as al Qa'ida, insurgents in Iraq, and by criminal organizations, acting alone or via middlemen. We also are concerned about rogue or criminal elements willing to supply materials and technology—alone or with a network—without their government's knowledge.

We are especially concerned about the potential for terrorists to gain access to WMD-related materials or technology. Many countries in the international community share these concerns. Therefore we are working closely with other elements of the US Government to enhance the safety and security of nuclear weapons and fissile material and the detection of WMD materials.

IRAN'S AND NORTH KOREA'S WMD AND MISSILE PROGRAMS

The Iranian and North Korean regimes flout UN Security Council restrictions on their nuclear programs.

Over the past year we have gained important new insights into **Tehran's** activities related to nuclear weapons and the Community recently published a National Intelligence Estimate on Iranian intent and capabilities in this area. I want to be very clear in addressing the Iranian nuclear capability. First, there are three parts to an effective nuclear weapons capability:

1. Production of fissile material
2. Effective means for weapons delivery
3. Design and weaponization of the warhead itself

We assess in our recent NIE on this subject that warhead design and weaponization were halted, along with covert military uranium conversion- and enrichment-related activities. Declared uranium enrichment efforts, which will enable the production of fissile material, continue. This is the most difficult challenge in nuclear production. Iran's efforts to perfect ballistic missiles that can reach North Africa and Europe also continue.

We remain concerned about Iran's intentions and assess with moderate-to-high confidence that Tehran at a minimum is keeping open the option to develop nuclear weapons. We have high confidence that Iranian military entities were working under government direction to develop nuclear weapons until fall 2003. Also, Iranian entities are continuing to develop a range of technical capabilities that could be applied to producing nuclear weapons. Iran continues its efforts to develop uranium enrichment technology, which can be used both for power reactor fuel and to produce nuclear weapons. And, as noted, Iran continues to deploy ballistic missiles inherently capable of delivering nuclear weapons, and to develop longer-range missiles. We also assess with high confidence that even after fall 2003 Iran has conducted research and development projects with commercial and conventional military applications—some of which would also be of limited use for nuclear weapons.

We judge with high confidence that in fall 2003, Tehran halted its nuclear weapons design and weaponization activities, as well as its covert military uranium conversion and enrichment-related activities, for at least several years. Because

of intelligence gaps, DOE and the NIC assess with only moderate confidence that all such activities were halted. We assess with moderate confidence that Tehran had not restarted these activities as of mid-2007, but since they comprised an unannounced secret effort which Iran attempted to hide, we do not know if these activities have been restarted.

We judge with high confidence that the halt was directed primarily in response to increasing international scrutiny and pressure resulting from exposure of Iran's previously undeclared nuclear work. This indicates that Iran may be more susceptible to influence on the issue than we judged previously.

We do not have sufficient intelligence information to judge confidently whether Tehran is willing to maintain the halt of its nuclear weapons design and weaponization activities indefinitely while it weighs its options, or whether it will or already has set specific deadlines or criteria that will prompt it to restart those activities. We assess with high confidence that Iran has the scientific, technical and industrial capacity eventually to produce nuclear weapons. In our judgment, only an Iranian political decision to abandon a nuclear weapons objective would plausibly keep Iran from eventually producing nuclear weapons—and such a decision is inherently reversible. I note again that two activities relevant to a nuclear weapons capability continue: uranium enrichment that will enable the production of fissile material and development of long-range ballistic missile systems.

We assess with moderate confidence that convincing the Iranian leadership to forgo the eventual development of nuclear weapons will be difficult given the linkage many within the leadership see between nuclear weapons development and Iran's key national security and foreign policy objectives, and given Iran's considerable effort from at least the late 1980s to 2003 to develop such weapons.

We continue to assess with moderate-to-high confidence that Iran does not currently have a nuclear weapon. We continue to assess with low confidence that Iran probably has imported at least some weapons-usable fissile material, but still judge with moderate-to-high confidence it has not obtained enough for a nuclear weapon. We cannot rule out that Iran has acquired from abroad—or will acquire in the future—a nuclear weapon or enough fissile material for a weapon. Barring such

acquisitions, if Iran wants to have nuclear weapons it would need to produce sufficient amounts of fissile material indigenously—which we judge with high confidence it has not yet done.

Iran resumed its declared centrifuge enrichment activities in January 2006, despite the 2003 halt in its nuclear weapons design and weaponization activities. Iran made significant progress in 2007 installing centrifuges at Natanz, but we judge with moderate confidence it still faces significant technical problems operating them.

- We judge with moderate confidence that the earliest possible date Iran would be technically capable of producing enough highly enriched uranium (HEU) for a weapon is late 2009, but that is very unlikely.

- We judge with moderate confidence Iran probably would be technically capable of producing enough HEU for a weapon sometime during the 2010-2015 time frame. INR judges Iran is unlikely to achieve this capability before 2013 because of foreseeable technical and programmatic problems. All agencies recognize the possibility that this capability may not be attained until *after* 2015.

We know that Tehran had a chemical warfare program prior to 1997, when it declared elements of its program. We assess that Tehran maintains dual-use facilities intended to produce CW agent in times of need and conducts research that may have offensive applications. We assess Iran maintains a capability to weaponize CW agents in a variety of delivery systems.

We assess that Iran has previously conducted offensive BW agent research and development. Iran continues to seek dual-use technologies that could be used for biological warfare.

North Korea's nuclear weapons and missile programs threaten to destabilize a region that has known many great power conflicts and comprises some of the world's largest economies. North Korea has already sold ballistic missiles to several Middle Eastern countries and to Iran. We remain concerned North Korea could proliferate nuclear weapons abroad.

While North Korea's military almost certainly could not defeat South Korea, it could inflict hundreds of thousands of casualties and severe damage on the South. Missile delivery systems, including several hundred deployed Scud and No Dong missiles, which were flight-tested in July 2006, add to the threat to South Korea and extend it to Japan, including to US bases in both those countries. The North's October 2006 nuclear test supports our previous assessment that it had produced nuclear weapons. The test produced a nuclear yield of less than one kiloton, well below the yield of most states' first nuclear tests. Prior to the test, North Korea produced enough plutonium for at least a half dozen nuclear weapons.

The IC continues to assess that North Korea has pursued a uranium enrichment capability at least in the past, and judges with at least moderate confidence that the effort continues today.

Pyongyang probably views its capabilities as being more for deterrence and coercive diplomacy than for warfighting and would consider using nuclear weapons only under certain narrow circumstances. We also assess that Pyongyang probably would not attempt to use nuclear weapons against US forces or territory unless it perceived the regime to be on the verge of military defeat and risked an irretrievable loss of control.

- We assess that North Korea's Taepo Dong-2, which failed in its flight-test in July 2006, probably has the potential capability to deliver a nuclear-weapon-sized payload to the continental United States. But we assess the likelihood of successful delivery would be low absent successful testing.

NORTH KOREA AND SIX PARTY TALKS

North Korea conducted missile tests and its first nuclear detonation in October 2006. Since returning to the negotiating table last year, Pyongyang has reaffirmed its September 2005 commitment in principle to full denuclearization, shut down its nuclear facilities at Yongbyon, and begun the process of disabling those facilities. But the North missed a 31 December deadline for a full declaration of its nuclear programs, as had been agreed to last October. The regime appears stable, but persistent economic privation and natural disasters—such as the severe floods last August—and uncertainty about succession arrangements create the potential for domestic unrest with unpredictable consequences.

NUCLEAR AND COMPETITORA INDIA AND PAKISTAN

In assessing the nuclear competition between India and Pakistan, we note that missile tests and new force deployments over the past three years have not affected the ongoing political dialogue. Although both New Delhi and Islamabad are fielding a more mature strategic nuclear capability, they do not appear to be engaged in a Cold War-style arms race for numerical superiority.

PAKISTAN NUCLEAR SECURITY

We judge the ongoing political uncertainty in Pakistan has not seriously threatened the military's control of the nuclear arsenal, but vulnerabilities exist. The Pakistan Army oversees nuclear programs, including security responsibilities, and we judge that the Army's management of nuclear policy issues—to include physical security—has not been degraded by Pakistan's political crisis.

THE CYBER THREAT

The US information infrastructure—including telecommunications and computer networks and systems, and the data that reside on them—is critical to virtually every aspect of modern life. Therefore, threats to our IT infrastructure are an important focus of the Intelligence Community. As government, private sector, and personal activities continue to move to networked operations, as our digital systems add ever more capabilities, as wireless systems become even more ubiquitous, and as the design, manufacture, and service of information technology has moved overseas, our vulnerabilities will continue to grow.

STATE AND NON-STATE CYBER CAPABILITIES

Our information infrastructure—including the internet, telecommunications networks, computer systems, and embedded processors and controllers in critical industries—increasingly is being targeted for exploitation and potentially for disruption or destruction, by a growing array of state and non-state adversaries. Over the past year, cyber exploitation activity has grown more sophisticated, more targeted, and more serious. The Intelligence Community expects these trends to continue in the coming year.

We assess that nations, including Russia and China, have the technical capabilities to target and disrupt elements of the US information infrastructure and for intelligence collection. Nation states and criminals target our government and private sector information networks to gain competitive advantage in the commercial sector. Terrorist groups—including al-Qa'ida, HAMAS, and Hizballah—have expressed the desire to use

cyber means to target the United States. Criminal elements continue to show growing sophistication in technical capability and targeting, and today operate a pervasive, mature on-line service economy in illicit cyber capabilities and services available to anyone willing to pay.

Each of these actors has different levels of skill and different intentions; therefore, we must develop flexible capabilities to counter each. It is no longer sufficient for the US Government to discover cyber intrusions in its networks, clean up the damage, and take legal or political steps to deter further intrusions. We must take proactive measures to detect and prevent intrusions from whatever source, as they happen, and before they can do significant damage.

At the President's direction, an interagency group reviewed the cyber threat to the US and identified options regarding how best to integrate US Government defensive cyber capabilities; how best to optimize, coordinate and de-conflict cyber activities; and how to better employ cyber resources to maximize performance. This tasking was fulfilled with the January 2008 issuance of NSPD-54/HSPD-23, which directs a comprehensive national cybersecurity initiative. These actions will help to deter hostile action in cyber space by making it harder to penetrate our networks.

AFGHANISTAN

In 2007 the number of attacks in Afghanistan's Taliban-dominated insurgency exceeded that of the previous year, in part because NATO and Afghan forces undertook many more offensive operations. Efforts to improve governance and extend development were hampered by a lack of security in some areas and a general lack of government capacity and competency. The ability of the Karzai government, NATO, and the United States to defeat the Taliban will determine the continued support of the Afghan people for the government and the international community. Afghan leaders also must deal with endemic corruption and pervasive poppy cultivation and drug trafficking. Ultimately, defeating the insurgency will depend heavily on the government's ability to improve security, deliver services, and expand development for economic opportunity.

SECURITY DETERIORATION IN THE SOUTH

Although international forces and the Afghan National Army continue to score tactical victories over the Taliban, the security situation has deteriorated in some areas in the south, and Taliban forces have expanded their operations into

previously peaceful areas of the west and around Kabul. The Taliban-dominated insurgency has expanded in scope despite operational disruption caused by International Security Assistance Force (ISAF) and Operation Enduring Freedom operations. The death or capture of three top Taliban leaders last year—their first high level losses—does not yet appear to have significantly disrupted insurgent operations.

Continued progress has been made in expanding and fielding the Afghan National Army, which as of the end of 2007 reported attaining 70 percent of its authorized 70,000 end strength. While this is an improvement, the shortage of international trainers in the field, high operational tempo, attrition, and absenteeism hamper efforts to make units capable of significant independent action. The Afghan National Police has approximately 90 percent of its authorized 82,000 end-strength. While the National Police may have more forces throughout Afghanistan, corruption, insufficient training and equipment, and absenteeism hamper their effectiveness.

CENTRAL GOVERNMENT AUTHORITY AND CAPACITY

Kabul in 2008 must work closely with the national legislature, as well as provincial and tribal leaders, to establish and extend the capacity of the central government. The country faces a chronic shortage of resources and of qualified and motivated government officials at the national and local level.

The drug trade is one of the greatest long-term challenges facing Afghanistan. The insidious effects of drug-related criminality continue to undercut the government's ability to assert its authority, to develop a strong, rule-of-law based system, and to rebuild the economy. Despite improved eradication and investigative efforts, poppy cultivation increased again last year. Opium poppy cultivation remains at or near 2004 record levels with over 200,000 hectares of land under cultivation in 2007.

Both law enforcement and judicial capacity—although somewhat improved—remain limited, and Kabul remains constrained in its ability to deploy programs at the provincial and local levels. For farmers, opium poppy cultivation remains significantly more lucrative than wheat and other crops. The United Nations estimated the total farm-gate value of opium production in 2007 at $1 billion, with Helmand Province producing just over half of this total. The Taliban and other insurgent groups operating in poppy-growing regions gain at

least some of financial support as a result of their ties to local opium traffickers. Drug money is an important source of income, especially at the local level where some Taliban commanders accrue their own operational funding.

IRAQ
TANGIBLE GAINS IN SECURITY

The security situation in Iraq continues to show signs of improvement. According to Multinational Force-Iraq, as of the end of 2007, security incidents countrywide and in the 10 Baghdad Security Districts have declined to their lowest levels since the February 2006 Samarra Golden Mosque bombing; civilian violence has declined to pre-Samarra levels; and monthly civilian fatalities nationwide have fallen by over half in the past year. We judge these security gains are the result of a combination of factors, including the success of tribal efforts in combating AQI, expanded Coalition operations, and the growing capabilities of the Iraqi Security Forces (ISF).

- We judge that organized tribal resistance to AQI—aided by expanded Coalition operations—has reduced AQI's operational capabilities. Concurrently, decisions by major elements of the Sunni insurgency to work with the Coalition this year have weakened the insurgency by reducing the number of Sunnis involved in violent resistance.

- Many tribal members and former insurgents have joined "Concerned Local Citizen" groups (CLCs) or "tribal awakening" movements that are cooperating with the Coalition and Iraqi Government. Some groups have indicated a desire to move beyond providing security. They now want to promote economic development and become political movements. They also are endorsing the legitimacy of elections and political bargaining to effect change at the provincial and national levels of government.

- A steady decline in suicide attacks—the majority of which we judge are conducted by foreign terrorists—indicates that Coalition disruptions of AQI's foreign terrorists have eroded AQI's capability to mount suicide operations.

- The ISF effectively deployed forces to Baghdad in support of Operation Fardh al-Qanun this spring and, most recently, to Al Basrah and Ad Diwaniyah. While showing dramatic improvements, the ISF currently needs the Coalition for planning, supporting, and executing sustained operations.

BUT SECURITY CHALLENGES REMAIN

Despite these gains, a number of internal factors continue to undermine Iraq's security. Sectarian distrust is still strong throughout Iraqi society, and AQI remains capable of conducting destabilizing operations and spectacular attacks despite disruptions of its networks. AQI remains a potent force and the most active and capable of the Sunni extremist groups fighting Coalition and Iraqi Government forces in Iraq. Also, since last August, intra-communal violence in southern Iraq has spread beyond rival militia factions as Shia groups compete for advantage.

Many Sunnis who participate in local security initiatives retain a hostile attitude toward Shia parties that dominate the government, and some Shia leaders still view many anti-AQI Sunni groups as thinly disguised insurgents who are plotting to reverse the political process that brought the Shia to power.

Security in southern Iraq probably will remain fragile in the coming months as rival Shia groups continue to compete violently for political power and economic resources. In Al Basrah, security remains tenuous. Security also is a problem in northern Iraq. Violence has increased in Mosul, Iraq's third largest city, as both Sunni resistance elements and AQI increasingly focus their activities in the area. The Iraqi government will have to address Sunni Arab concerns over representation on the provincial councils, defeat AQI and the insurgents, and address Kurdish expansionism to improve security in northern Iraq.

A number of factors continue to challenge the ISF's ability to conduct effective operations independent of Coalition forces. While improving significantly over the past year, ISF units remain hindered by shortages of personnel—especially trained leaders—and many units still rely on the Coalition for logistics support. Lastly, the return of Iraqi refugees and internally displaced persons (IDPs) to their former homes and neighborhoods as security improves could increase ethnosectarian tensions in mixed communities and create an additional strain on the Iraqi Government's ability to provide security and basic services to the general population.

NEIGHBORS, FOREIGN FIGHTERS FURTHER CHALLENGE SECURITY

Efforts by some of Iraq's neighbors to exert influence in Iraq also endanger Iraq's security. Iran—primarily through the Islamic Revolutionary Guard Corps-Qods Force—continues to provide weapons, funding, and training support to certain Iraqi

Shia militants despite reported commitments by senior Iranian officials to stop such support. Iran's provision of lethal aid to Iraqi Shia militants is designed to increase Tehran's influence over Iraq as well as ensure the United States suffers setbacks.

Approximately 90 percent of all suicide attacks in Iraq are conducted by foreign terrorists with 50 to 80 foreign terrorists entering Iraq each month, although that number appeared to decline in the last part of 2007. Seventy to eighty percent of the foreign terrorists gain final entry into Iraq through Syria, many through the Damascus international airport.

Syrian internal security operations have contributed to the reduction in the effectiveness of AQI's Syria-based foreign terrorist facilitation networks and in the number of foreign terrorists entering Iraq; nevertheless, Syria remains the primary transit hub for Iraq-bound terrorists.

POLITICS AND GOVERNANCE: CRITICAL COMPONENTS TO IRAQ'S SECURITY

Improved security is a necessary but not sufficient condition to stabilize Iraq. Bridging differences among competing factions and communities and providing effective governance are critical for achieving a successful state, but moving ahead on that road has been tough for Iraq.

Prime Minister Maliki's government had only limited success in delivering government services and improving the quality of life for Iraqis. Despite the beginning of a return of Iraqis who had fled because of violence, the political gaps between Iraqi communities, particularly the Arab Sunni and Shia, remain deep.

Against this backdrop, Baghdad has managed to make some progress on key legislation. Legislation to reform de-Bathification laws, known as the "Accountabilty and Justice Law," has passed in the Iraqi Council of Representatives and awaits approval from the Presidency Council. When approved, this legislation would provide more Iraqis with an opportunity to play a role and have a stake in the central government. Negotiations on hydrocarbon laws continue to be stalled by disagreements between the central government and the Kurds over control of resources and revenue sharing. Progress also has been mixed on resolving outstanding Constitutional reform issues and preparing to hold provincial elections.

Gains on the economic front have improved the quality of life for Iraqis. Improved security has contributed to an increase in oil output from northern Iraq. The government also improved its performance last year in executing its budget, and the rate of inflation declined to 4.7 percent in December 2007 after hovering around 50 percent for most of 2006.

Legislation and improvements in governance and the economy are not in themselves ends; rather they are critical means for restoring Iraqi confidence in the central government and for easing sectarian distrust, which are the greatest requirements for enabling reconciliation.

TURKEY

The Marxist inspired KGK maintains approximately 3,000-3,500 guerrilla fighters in its northern Iraqi camps, about 1,000-2,000 fighters inside Turkey, and several hundred in Iran and Syria and wants to establish a greater Kurdistan. The group has maintained a high-level of violence in Turkey a few months each year since it ended its five-year old unilateral ceasefire in 2004.

Although the KGK has not previously targeted US interests, the risk of retaliatory attacks against US interests in Turkey and Iraq could grow.

IRAN

During the next year Supreme Leader Ali Khamenei and Iran's various conservative factions, despite some differences and infighting, are expected to maintain control over a politically stable if economically troubled Iranian state. However, recent public feuding between government factions over President Ahmadi-Nejad's handling of foreign and domestic policy issues—specifically the nuclear issue and the economy—probably is making it more difficult for Khamenei to avoid taking sides. The political discord probably has intensified as a result of international pressure, and as each side tries to position itself in advance of the Majles elections in March.

- Expediency Council Chairman Rafsanjani in November called on the government to take the latest sanctions seriously, according to press.

- Ahmadi-Nejad publicly has responded by calling his critics "traitors" and threatened to publicly reveal their identities.

- In December, Rafsanjani publicly attacked Ahmadi-Nejad, likening the President's economic policies to those of the Shah—an extremely unusual and pointed critique.

- Iran is on its soundest financial footing since the revolution with record high oil export revenue boosting foreign exchange reserves to more than $70 billion. Despite the positive financial outlook, Iran's economy is plagued by the twin problems of high inflation and unemployment, which are Iranians' top complaints. Ahmadi-Nejad's populist policies have reduced unemployment marginally, but at the expense of rising inflation, which his political rivals might try to exploit in the upcoming Majles elections.

Iran remains a threat to regional stability and US interests in the Middle East because of its continued support for violent groups, such as HAMAS and Hizballah, and efforts to undercut pro-Western actors, for example in Lebanon. Tehran's leadership seeks to preserve Iran's Islamic revolutionary government, sovereignty, stability, and territorial integrity while expanding Iran's influence and leadership in the region and the Islamic world.

Iran also is enhancing its ability to project its military power—primarily with ballistic missiles and naval power—with the ultimate goal of dominating the Gulf region and deterring potential adversaries. It seeks a capacity to disrupt Gulf shipping, especially in the Strait of Hormuz, and thus the operations and reinforcement of US forces in the region—potentially intimidating regional allies into withholding support for US policy. Iran's growing inventory of ballistic and anti-ship cruise missiles is a key element in its efforts to assert its influence.

Iranian leadership perceptions of a favorable environment are driving its foreign policy to expand Tehran's influence and leadership in the region and the Islamic world and to undermine US influence, which it perceives as inimical to Iran's clerical regime. To achieve its regional aims and mitigate threats, Iran seeks to develop a sphere of influence based on diplomatic and economic relations, religious affinities, and shared anti-US sentiments. While Tehran seeks better relationships with Shia populations worldwide, it continues to be especially strident in denying Israel's right to exist.

Whether courting other governments or Muslim citizens, Iranian leaders seek political allies and economic partners as well as religious converts. Moreover, Tehran probably judges that local surrogates—usually Shia allies or proxies cultivated over many years—can promote Iran's interests.

In Afghanistan, Iran likely will continue to focus on political activities, reaching out to alternative power centers, and challenging the US-led Coalition. Iranian officials probably will increase contact with various militias, political oppositionists, and religious leaders in Afghanistan and continue to provide lethal aid to groups and individuals who might be able to influence events in Iran's favor should the Karzai government falter or turn against Iran. We assess Iran has provided weapons to some Taliban commanders. NATO forces last September interdicted a vehicle convoy from Iran that contained weapons, including advanced improvised explosive devices, destined for the Taliban.

- In the Levant, Iranian security concerns, particularly vis-à-vis Israel and the United States, and ambitions to become a dominant regional player, loyalty to allies, and concern for Lebanese Shia probably are driving Tehran's relations with Syria, Hizballah, and other regional groups. Over the longer term, differences in Iranian and Syrian goals could limit their cooperation, but—barring significant changes in threat perceptions by either Syria or Iran—Tehran probably will continue providing military support to Syria.

- In Lebanon, Tehran seeks to build Iran's and Hizballah's influence to the detriment of other Lebanese communities and US and Israeli interests. To enhance its role as the leader of resistance to Israel, Iran will increase its support to Palestinian terrorist groups, including HAMAS.

PAKISTAN

Pakistan is a critical partner in US counterterrorism efforts, but continues to face an array of challenges complicating its effectiveness against al-Qa'ida and other radical Islamic elements operating in the country. These challenges include coping with an unparalleled level of suicide attacks ordered by Pakistan-based militants, many of whom are allied with al-Qa'ida. At least 865 security forces and civilians were killed by suicide bombings and IEDs in 2007. Four hundred ninety-six security forces and civilians also were killed in armed clashes in 2007 to make a total of 1360 killed in 2007. Total casualties in

2007 including the number of injured security forces and civilians exceeded the cumulative total for all years between 2001 and 2006.

Pakistan is establishing a new *modus vivendi* among the Army, President Musharraf, and elected civilian leaders now that Musharraf has stepped down as Army chief. Pakistani authorities are increasingly determined to strengthen their counterterrorism performance, even during a period of heightened political tension that we expect to continue over the next year.

Radical elements in Pakistan have the potential to undermine the country's cohesiveness. The terrorist assassination of former Prime Minister Benazir Bhutto could embolden Pashtun militants, increasing their confidence that they can strike the Pakistani establishment anywhere in the country.

The killing of Bhutto weakens the political party in Pakistan with the broadest national reach and most secular orientation, the Pakistan People's Party Parliamentarians (PPPP). However, sympathetic voters could give the party the largest number of Assembly seats in the upcoming national elections.

The Pakistani government's current plans will require intensified and sustained efforts to orchestrate the administrative, economic, educational, legal, and social reforms required to defeat Islamic extremism and militancy. Pakistan's law and order problems arising from tribal and religious militancy can be effectively addressed in the long term only if police and paramilitary forces can more reliably provide justice and border security. All of these administrative reforms require effective political leadership focused on improving the capabilities of Pakistani institutions for effective governance and development of economic opportunity.

SYRIA

The regime in Damascus continues to undermine Lebanon's sovereignty and security through its proxies; to harbor and support terrorists and terrorist organizations opposed to progress on peace talks; and to allow terrorists and criminals to cross its borders into Iraq and Lebanon. And as I noted previously, Syria's efforts to stop the flow of foreign fighters through Syria into Iraq has improved in recent months but is uneven over the past year.

Since the assassination of Rafiq Hariri in 2005, eight additional political leaders or officials have been killed in Lebanon in an effort to intimidate 14 March Coalition figures and alter the political balance in the Lebanese legislature. The Syrian regime, Hizballah, and pro-Syrian opposition elements in Lebanon have attempted to stymie international efforts to bring to justice those responsible for the Hariri assassination and disarm militia groups which constitute a challenge to Lebanese security and sovereignty. We anticipate that Syria and its supporters will continue to manipulate political developments in Lebanon through violence, intimidation, and refusal to work within constitutional parameters.

Syria continues its support of Hizballah as that group seeks to rearm against Israel and advance its political agenda in Lebanon at the expense of the legitimate government. Damascus continues to support Palestinian rejectionist groups, including HAMAS, the Palestine Islamic Jihad, and the Popular Front for the Liberation of Palestine-General Command. These organizations continue to base their external leadership in Syria, and despite repeated demands from the international community, Syria refuses to expel them or their leaders from their safe-haven in Damascus.

LEBANON

In Lebanon, international efforts, to ensure free, fair, and constitutional presidential elections, have been impeded by destabilizing actions of Syria, Iran, and their Lebanese proxies.

Lebanese Armed Forces (LAF) Commander Michel Sulayman has emerged as the prospective consensus candidate to become the country's next president; but Hizballah and the other pro-Syrian opposition parties insist on further concessions from the ruling Coalition before agreeing on the compromise. Even if the presidency is decided peacefully, issues such as the formation of the new government, naming of a prime minister, and the prospects for a UN tribunal investigating the assassination of former Prime Minister Hariri will be contentious.

- Since November 2006, a Minister, a deputy chief of the LAF, and several pro-government legislators have been killed in a campaign of intimidation—deepening fear among the Lebanese people that Syria, Iran, and their Lebanese cohorts will prevent Lebanon from asserting their political and economic independence.

- The pro-Syrian opposition has interfered with the government's implementation of UN Security Council resolutions. In violation of UNSC Resolution 1701, weapons and fighters continue to flow across Lebanon's borders to Hizballah and other terrorist organizations.

In southern Lebanon more than 13,000 UNIFIL peacekeepers and the Lebanese Armed Forces patrol Hizballah's stronghold. As recently as January, militants launched rockets into northern Israel from inside the UNIFIL zone and a roadside bomb killed six peacekeepers last June. Many former militias in Lebanon are reconstituting, rearming, and retraining their fighters. The increased political and sectarian tension also raises the potential for civil war within the country. Lastly, militant groups, some associated with al-Qa'ida, continue to threaten Lebanese internal security.

PALESTINIAN TERRITORIES

Despite progress toward initiating formal peace talks made in Annapolis last November, concern persists over the Palestinian Authority's ability to deliver the security demanded by Israel and to win popular support for its positions. President Abbas and other moderates remain vulnerable to actions by HAMAS and other groups aimed at subverting an agreement. The intra-Palestinian schism between Abbas and HAMAS has escalated since HAMAS' takeover of Gaza last summer.

HAMAS feels increased pressure over a weakening economic situation and an accelerating humanitarian crisis in the Gaza Strip; however, the group remains fairly unified, especially its military wing, and in charge in the Gaza Strip where it controls all PA facilities. HAMAS continues to curtail freedoms and to harass Fatah members.

In the West Bank, we see signs of progress by Fatah, including steps to reorganize the security sector, the return of PA customs revenues collected by Israel, renewed security and law enforcement cooperation with Israeli forces in taking more effective action against HAMAS, and progress by PA security forces in establishing security in Nablus and other areas.

SAUDI ARABIA

In Saudi Arabia, the long-term challenge from Islamic extremism has been checked for now, and the government benefits from steady, oil price-driven economic growth. Saudi security forces have achieved notable successes against al-Qa'ida networks inside the Kingdom since 2003, killing or capturing al-Qa'ida's original Saudi-based leadership and

degrading its manpower, access to weapons, and operational capability.

Although Riyadh also has made strides against key supporters and facilitators of extremist attacks in Iraq, Saudi Arabia remains a source of recruits and finances for Iraq and Levant-based militants and Saudi extremists constitute the largest share of foreign fighters and suicide bombers in Iraq.

RUSSIA AND EURASIA

Let me turn now to Russia and Eurasia. In March, **Russia** is set to reach what many anticipated would be an important milestone—the first on-schedule change in leadership since communism and the first voluntary transfer of power from one healthy Kremlin leader to another. That milestone has been clouded, however, by President Putin's declared readiness to serve as prime minister under his hand-picked successor, Dmitry Medvedev, a move that raises questions about who will be in charge of Russia after Putin's presidential term expires in May. Coming at a time of uncertainty about Russia's direction, the Medvedev-Putin "cohabitation" raise questions about the country's future and the implications for Western interests.

While many of the essential features of the current system are likely to endure, including weak institutions, corruption, and growing authoritarianism, we will be alert for signs of systemic changes such as an indication that presidential powers are being weakened in favor of a stronger prime minister.

ELEMENTS OF RUSSIA'S REVIVAL

We judge the Russian economy will continue to expand under a new leadership, although at a slower rate than over the last eight years, given capacity constraints, the slow pace of institutional change, the impact of real ruble appreciation, and developments in the international economy. Negative longer-term demographic challenges loom and investment will remain a significant constraint, particularly in the energy sector.

Other elements of Russian national power—from trade and energy, to diplomatic instruments and military and intelligence capabilities—are on a path to grow over the next four years. For example, Russia is positioning to control an energy supply and transportation network spanning from Europe to East Asia. Aggressive Russian efforts to control, restrict or block the transit of hydrocarbons from the Caspian to the West—and to ensure that East-West energy corridors remain subject to Russian control—underscore the potential power and influence of Russia's energy policy.

The Russian military has begun to reverse a long, deep deterioration in its capabilities that started before the collapse of the Soviet Union. Although determined that defense spending not harm Russia's economic performance, Putin has been committed to increases for defense commensurate with GDP growth that has averaged just under 7 percent this decade. By 2006 the military had significantly increased the number of high-readiness units from 1999 levels, ramped up ground forces training—including mobilization exercise activity—and begun to man its high-readiness units with longer-term "contract" personnel rather than conscripts.

Moscow also is making more use of its strengthened armed forces. A growing number of exercises with foreign militaries and an increased operational tempo in the North Caucasus Military District, often focusing on potential Georgian contingencies, are designed primarily to demonstrate regional dominance and discourage outside interference. Russia has used widely publicized missile launches and increased long-range aviation (LRA) training flights to the Pacific, Atlantic, and Arctic Oceans to showcase Russia's continued global reach and military relevance.

The military still faces significant challenges, and recent activity does not approach Soviet era operations. Demographic, health problems, and conscription deferments erode available manpower. Strategic nuclear forces remain viable, but Russia's defense industry suffers from overcapacity, loss of skilled and experienced personnel, lack of modern machine tools, rising material and labor costs, and dwindling component suppliers.

EURASIA AND BALKANS IN FLUX

The other states of Eurasia remain in a state of flux. Unresolved conflicts in the separatist **Georgian** regions of Abkhazia and South Ossetia will remain potential flashpoints even if Russia—in response to Western recognition of Kosovo—does not follow through with its implicit threat to recognize the two regions as independent. President Saakashvili's reelection in January will help renew his democratic credentials and leadership mandate.

Elsewhere in the Caucasus, the stalemated Nagorno-Karabakh conflict between **Azerbaijan** and **Armenia** continues to produce dozens of casualties annually along the Line-of-Contact. Moreover, Russia's recent suspension of its Conventional Forces in Europe obligations could lead to similar

suspensions by Azerbaijan and Armenia and a subsequent arms race.

Ukraine will continue to experience an unsettled domestic political situation for months to come. The struggle for power between various factions, however, has remained within the political system since the Orange Revolution, decreasing the possibility of violence.

Prospects for major political change in **Belarus** are dim over the next year. Lukashenko's populist rhetoric, image as the defender of Belarus, and ability to keep the economy stable have maintained his high popularity. Opposition efforts to promote a pro-Western democratic agenda and build support for his ouster have gained little traction.

Central Asian Trends. Central Asia remains fertile ground for radical Islamic sentiment and movements, due to socioeconomic and other factors. In **Uzbekistan**, President Karimov is intent on retaining firm control, but faces increased public dissatisfaction over a weakened economy and higher commodity prices. He has already demonstrated the willingness to use force against his people and could move quickly to suppress protests. **Kyrgyzstan** and **Tajikistan** lack the energy resources of other Central Asian states and have weak economies, but appear relatively stable for now. In the last year, **Turkmenistan** has shown progress on human rights and has begun to expand contacts with the outside world, but is still recovering from years of isolation.

We judge that **the Balkans** will remain unsettled in 2008 as Kosovo's drive for independence from Serbia comes to a head and inter-ethnic relations in Bosnia worsen. Kosovo leaders say they will declare independence early in 2008, a move that could trigger confrontation with rejectionist Serbs living in northern Kosovo and some retaliatory measures by Belgrade. A delay in independence could provoke a violent response from embittered Kosovo Albanian extremists.

Inter-ethnic violence that brings about intervention by NATO-led forces, is possible once Kosovo declares its independence, and any violence could spill over to neighboring states. However Kosovo's status is resolved, ethnic Albanian minorities in Macedonia and southern Serbia are likely to continue pressing for greater autonomy, and ethnic Albanian

extremists will attempt to exploit public discontent and use small-scale violence to rally support for unification with Kosovo. Serbian officials say they will not intervene with the Serbian Army in Kosovo, but they have warned of political and economic responses that would probably harden Kosovo Serb's rejectionism of independence and hinder Kosovo's economic development.

Fundamental differences between Bosniak and Bosnian Serb leaders over the ultimate structure of a multi-ethnic Bosnian state, fueled by increasingly strident ethnic rhetoric over the past year, have stymied most reforms required to keep Bosnia on a stabilizing path toward closer ties with the EU and NATO. However, the EU recently initialed a Stabilization and Association Agreement with Sarajevo. The international community presence in Bosnia is set to decline further in 2008. We judge the probability of interethnic violence is low absent a move by Bosnia's Serb entity, the Republika Srpska, toward secession. Any violence would put pressure on US and NATO forces in the region to assist.

CHINA

China sees itself as a regional power with global interests. Its strategic priorities focus on sustaining economic growth and political stability, partly as means to reinforce China's status as a great power and to uphold its territorial integrity. Beijing sees a peaceful external environment as vital to achieving these goals. As a result, China's global engagement is not driven by Communist ideology or military expansionism, but instead by a need for access to markets, resources, technology and expertise, and a desire to assert its role in the international community.

- All these goals have been reflected over the past few years in Beijing's expanded engagement with Africa and Latin America. China's efforts there have largely focused on gaining greater access to natural resources—especially oil—but China's involvement in these regions also helps promote its regional and global influence by burnishing China's image as a leader of the developing world. For example, Beijing has boosted its participation in African peacekeeping operations, most notably in Sudan.

- China's engagement in these regions, however, often overlooks the tendency of some developing world leaders to engage in human rights abuses or proliferation behavior—thus providing disincentives for those leaders to

alter such behaviors. In addition, Beijing still engages in some activities—including arms sales—that could contribute to instability in Africa or Latin America. China's arms sales in the Middle East are also destabilizing and a threat to US forces, while missile sales to Iran pose a threat to US forces in the Persian Gulf.

Public statements by Chinese leaders indicate that Beijing perceives itself as being in the midst of a 20-year "window of opportunity" favorable to China's growth, development, and rise in influence. As a result, Beijing is seeking a constructive relationship with the US and the rest of the world, which will allow China to fully capitalize on a favorable strategic environment. Indeed, Chinese officials consistently emphasize the need to seek cooperative relations with Washington, because conflict with the United States would risk derailing China's economic development. They also seek to alleviate international concerns about China's strategic intentions. As China's influence grows, however, Beijing probably will increasingly expect its interests to be respected by other countries. This will be especially true within East Asia, as Beijing tries to leverage its growing influence into a greater leadership role in the region.

The Taiwan presidential election scheduled for 22 March, coincides with an internal referendum on membership in the UN. Outgoing President Chen Shui-bian is seeking to affirm Taiwan's sovereignty and separate identity from the mainland. Beijing is attempting to use political and economic levers to deter what it sees as Taiwan's moves toward independence, but Chinese leaders say they are prepared for military contingencies, and have occasionally cited Beijing's 2005 "Anti-Secession Law," which authorizes the use of force if Beijing's leaders deem it necessary.

DOMESTIC STABILITY, ECONOMIC CONCERNS

Notwithstanding China's external goals, the leadership is focused on threats to domestic stability. President Hu Jintao's domestic policy agenda is an attempt to address some of the underlying causes of social discontent, which has erupted in local demonstrations, by focusing on more balanced economic opportunity, environmental protection, expanded social services, and rule of law while strengthening the Communist Party's hold on power. Chinese leaders rely on security forces to clamp down on non-governmental organizations, dissidents, and religious groups viewed as threats to the Party's power.

Implementation of Hu's program will require a major shift of resources to the countryside, greater accountability of provincial leaders to Beijing, and stronger efforts to root out corruption—all of which require overcoming substantial obstacles or taking significant political risks.

China's impressive economic growth—it is the world's second largest economy—masks significant distortions and risks, including a rigidly controlled currency that contributes to excess liquidity, wasteful investment; government policies that favor exports over domestic consumption; and a state-run banking system slowly recovering from a series of credit problems. China's demographic problem of an aging population, high incidence of chronic and infectious disease, environmental degradation, and an increasing energy crunch are likely to slow economic growth over the long term. A sudden and sharp slowdown in China could exacerbate vulnerabilities in the global economy; hardest hit would be its neighbors who sell about 50 percent of their goods to China and commodity producers who have enjoyed high prices and expanding export volumes because of China's rising demand for raw material, metals, and food.

PLA MODERNIZATION

The People's Liberation Army (PLA) continues to develop a wide range of systems that increasingly could put US and allied forces and bases in the region at risk. China's military modernization program is driven by the perception that a competent, modern military force is an essential element of the "great power" status to which Chinese leaders aspire. We judge that any Chinese regime, even a democratic one, would have similar goals.

China continues to develop and field conventional theater-range ballistic and cruise missile capabilities that will put US forces and regional bases throughout the Western Pacific and Asia at greater risk. China also is developing more capable long-range conventional strike systems and short- and medium-range ballistic missiles with terminally guided maneuverable warheads that could be used to attack US naval forces and airbases. China's arms sales in the Middle East are destabilizing and a threat to US forces, while missile sales to Iran also pose a threat to US forces in the Persian Gulf.

In addition, counter-command, control and sensor systems to include communications satellite jammers and ASAT weapons, are among Beijing's highest military priorities.

Beijing seeks to modernize China's strategic forces in order to address concerns about the survivability of those systems in the face of foreign advances in strategic reconnaissance, precision strike and missile defenses. China's nuclear capabilities in terms of range, lethality and survivability will increase rapidly over the next ten years.

THREATS TO SPACE SYSTEMS

Potential foreign adversaries are aware of the increasing US reliance on space systems and the advantages these systems provide to US military and intelligence operations. Over the last decade, the rest of the world has made significant progress in developing counterspace capabilities. I expand on this threat in my classified statement for the record.

LATIN AMERICA

The gradual consolidation of democracy remained the dominant trend over the last year in Latin America, but a small group of radical populist governments continues to project a competing vision that appeals to many of the region's poor. Indeed, the persistence of high levels of poverty and striking income inequalities will continue to create a potentially receptive audience for radical populism's message, especially in the less developed areas of Latin America.

Inspired and supported by Venezuela and Cuba, leaders in Bolivia, Nicaragua, and—more tentatively—in Ecuador are pursuing agendas that undercut checks and balances on presidential power, seek lengthy presidential terms, weaken media and civil liberties, and emphasize economic nationalism at the expense of market-based approaches. Moreover, each of these governments, to varying degrees, has engaged in sharply anti-US rhetoric, aligned with Venezuela and Cuba—and increasingly Iran—on international issues, and advocated measures that directly clash with US initiatives.

VENEZUELA

The referendum on constitutional reform last December was a stunning setback for Venezuelan President Chavez and may slow his movement toward authoritarian rule and implementation of his vision of 21st century socialism. However, Chavez will not abandon his goals for sweeping change toward socialism in Venezuela but may be compelled to spend more time bolstering his domestic support.

We judge Chavez miscalculated public opposition to such moves as seeking indefinite re-election and greater discretionary authority over expropriating private property. The proposed constitutional changes also generated schisms within the heretofore united pro-Chavez movement as Chavista governors and officials came to recognize their loss of power under the new system. The outcome of the referendum has given a major psychological boost to Chavez's opponents among the middle class, the private sector, the Catholic Church, and especially university students who have become an increasingly important political force. The challenge for the diverse opposition will be to remain united absent a coalescing event like the referendum.

While Chavez's policies are damaging the Venezuelan oil industry and its economy, over the next year or so, high oil prices are likely to enable Chavez to retain the support of his constituents through well-funded social programs; continue co-opting some members of the economic elite who are profiting from the consumer-led boom; and stave off the eventual consequences of his financial mismanagement. Adverse economic trends are increasingly evident, including food shortages, rising inflation, and an overvalued currency. Without question, policies being pursued by President Chavez have Venezuela on a path to ruin its economy.

Continued Regional Activism. Even with his likely increased attention to domestic affairs, Chavez will continue to seek to unite Latin America, under his leadership, behind an anti-US, radical leftist agenda and to look to **Cuba** as a key ideological ally. Chavez's leadership ambitions are likely to encounter growing opposition as time passes, however, because he has antagonized several of his regional counterparts and is increasingly portrayed by influential media as a divisive figure.

The sidelining of Fidel Castro in favor of his brother Raul may lead to a period of adjustment in Venezuela's relations with Cuba. Nevertheless, both governments depend heavily on this special bilateral relationship, and we assess they will find ways to smooth over any differences that may arise during the ongoing succession period in Cuba.

A high priority for Chavez will be to support the Morales government in **Bolivia.** The inauguration of **Nicaragua's** Daniel Ortega in January 2007 has given Chavez another staunch ally and a location from which to expand Venezuela's

activities in Central America. We expect Chavez to provide generous campaign funding to the Farabundo Marti National Liberation Front (FMLN) in **El Salvador** in its bid to secure the presidency in the 2009 election.

Venezuela and Iran. Chavez and Iran's President Ahmadi-Nejad have established a rapport, having visited each other seven times since 2005. Venezuela and Iran have made the most progress on the economic and energy fronts, negotiating agreements in such areas as agriculture, automobile and tractor manufacture, petrochemicals, and oil exploration in Venezuela's Orinoco region. Venezuela and Iran also have discussed cooperation on nuclear energy, but we are not aware of any significant developments as a result of these discussions. Military cooperation between Tehran and Caracas is growing. Nevertheless, the well over $3 billion in arms Venezuela has purchased from Russia over the past two years far exceeds the military sales and maintenance contracts to which Venezuela and Iran have agreed. There are growing signs of anxiety among Venezuela's neighbors about this military build-up.

Venezuela as Drug Transit Point. Since 2005 Venezuela has been a major departure point for South American—predominantly Colombian—cocaine destined for the US market, and its importance as a transshipment center continues to grow. Chavez's lack of counterdrug cooperation undermines efforts by other countries, particularly Colombia, by giving traffickers access to alternative routes and transit points. Chavez is likely to remain unengaged on the counternarcotics front unless the drug trade is perceived to damage his international image or threaten his political longevity.

CUBA

Raul Castro has served as Cuba's Provisional President for over 18 months, but his political skills will be further tested over the next year as he deals with heightened public expectations for economic improvement in food availability, housing, transportation, salaries, and meaningful employment. His actions to date indicate that he is looking for ways to bring about economic changes through a modest, though not a sweeping transformation of Cuba's Communist economic model. Raul Castro has publicly called for contact with the United States on Havana's terms aimed ultimately at bringing about an end to the US embargo.

We judge Raul's most likely approach will be cautious,

incremental steps to make the agricultural sector more productive, to allow some private sector expansion through the creation of more small-scale enterprises, and to attract new foreign investment. If Raul moves forward, he probably will take pains to ensure elite consensus. Senior Cuban officials have made clear that there are no plans to permit competitive elections or otherwise alter the Communist Party's monopoly of power. Indeed, the determination of the Cuban leadership to ignore outside pressure to carry out significant economic and political reform continues to be reinforced by the more than $1 billion net annual subsidy that Venezuela provides to sustain Cuba.

Policy missteps or the mishandling of a crisis by the leadership could lead to political instability in Cuba, raising the risk of mass migration. We assess the political situation is likely to remain stable at least in the initial months following Fidel Castro's death and do not expect to see overt signs of major cleavage in the ruling elite because many of the top Party and armed forces leaders were hand-picked by Raul Castro. Moreover, senior Party and government officials probably would not want to jeopardize their futures by forcefully challenging regime decisions. Pro-democracy dissidents continue to be harassed and to risk lengthy prison sentences for minor public criticism of the regime.

COLOMBIA

Under President Uribe, Colombia—the United States' staunchest ally in the region—has continued to make major progress in strengthening democracy by improving security while energetically implementing a comprehensive counternarcotics strategy.

Colombia's better-trained security forces and improving counterinsurgency capabilities have significantly weakened the Revolutionary Armed Forces of Colombia (FARC), confining the group's operations largely to ambushes and harassment attacks. This is a major difference from the late 1990s when the FARC regularly assaulted rural police garrisons and even battalion-sized Army units. Bogota now holds the strategic advantage because of the military's sustained combat operations in the FARC's rural heartland and the permanent stationing of security forces in regions previously dominated by the insurgents. Key successes last year included the killing of two prominent FARC Front commanders and the continuing high number of FARC deserters.

FARC leaders increasingly rely on political tactics to try to distract or restrain the government. The group's recent release of two Colombian hostages was a bid by the FARC to gain international recognition and pressure the government into offering it a demilitarized zone. The Uribe government continues to work with the United States to secure the freedom of three US hostages, who have been held captive for nearly five years. The FARC currently holds about 750 hostages.

The second major prong of Uribe's security strategy—demobilizing and reintegrating paramilitaries into civilian society—also has yielded important benefits. Government successes against all the illegal armed groups have caused murder and kidnapping rates to drop significantly, and the improved security environment has helped fuel an economic boom. Stepped-up efforts to prosecute human rights violators, including in the security services, have contributed to a gradually improving human rights picture. Bogota is taking steps to follow through with proposals to strengthen the judiciary and prosecute the murders of union members and human rights workers.

Bogota's counterdrug program continues to show impressive results, particularly in interdiction, arrests of major drug traffickers, and extradition. The police and military seized 65 metric tons of cocaine and cocaine base in 2006; it also destroyed 200 cocaine labs. The government has approved more than 550 extraditions to the United States since 2002, including more than 100 cases in 2007. And Colombian authorities captured kingpin Diego Montoya in September, the country's most important drug trafficker on the FBI's Top Ten list. Although aggressive US-supported aerial eradication has diminished coca cultivation in some areas, coca farmers have adapted by moving beyond the reach of the spray program or taking actions to save or replace sprayed fields. In response, the Uribe administration is combining spray efforts with increased emphasis on manual eradication.

MEXICO

The overall picture in Mexico is positive. President Felipe Calderon's strong start in his first year in office featured an aggressive counternarcotics offensive, forging a working relationship with elements of the opposition, securing a limited revamping of the government pension system, and pushing through Congress a high-priority fiscal reform package. The public has supported most of Calderon's policies, and

sustaining this momentum will be an important task as the midterm election season approaches in 2009.

Illegal migration, drug smuggling and associated violence, and human trafficking continue to threaten to Mexico's internal security and the security of the US southern border. Calderon's aggressive offensive against drug-trafficker-inspired violence has led him to deploy 20,000 to 30,000 federal police and soldiers to 10 Mexican states. A mid-year truce between major Mexican drug cartels aimed at diminishing inter-cartel violence appeared to reduce drug-related murders in certain areas last summer; but drug violence remains high and indeed, criminal violence has increased in frequency, brutality, and geographic scope. The government also faces a rejuvenated threat from a small group of domestic insurgents: bombings of Mexican oil and natural gas pipelines marked a return to violence by the radical leftist Popular Revolutionary Army (EPR). In response, Calderon has stepped up security of oil and gas pipelines.

To deter criminal activity, Calderon has deployed military troops to bolster security in states plagued with drug violence and extradited high-level traffickers to the United States. He is seeking to reform Mexico's police and judicial system, and has subjected top federal police commanders to drug tests, polygraphs, and a review of personal assets. While making progress, sustained success will require long- term commitment.

AFRICA

Persistent insecurity in **Nigeria's** oil producing region, the Niger Delta, poses a direct threat to US strategic interests in sub-Saharan Africa. Ongoing instability and conflict in other parts of Africa pose less direct though still significant threats to US interests because of their high humanitarian and peacekeeping costs, drag on democratic and economic development, and potential to get worse.

THREATS TO US INTERESTS IN NIGERIA

President Yar'Adua has pledged to resolve the crisis in the Niger Delta but faces many obstacles created by decades of neglect, endemic corruption, mismanagement, environmental degradation, and deep public mistrust of government. The armed elements behind the violence, sabotage, kidnappings, and oil theft appear to be splintered into numerous groups with different agendas that are mostly criminal in focus. Government officials, politicians, and military personnel have a history of colluding with these groups. Nigeria's corruption-prone military has reined in some gang violence under the new

administration but lacks the capacity and resources to police sprawling infrastructure in its swampy terrain. The military could provoke even more unrest if it went on the offensive against the armed groups.

Nigeria's overall political stability remains fragile even though tensions surrounding elections in 2007 have diminished. The crisis in Sudan's **Darfur** region shows few signs of resolution, even if the planned UN peacekeeping force of 26,000 is fully deployed. The rebels are fractured; some of them are prolonging the conflict for material gain and others regard the Darfur Peace Agreement as serving Khartoum's interests. Khartoum also has failed to honor ceasefire agreements. Some 2.2 million Darfurians remain displaced. Sudan's North-South peace agreement also is in danger of collapse because of mounting Southern frustration with the North's failure to honor core provisions on power and revenue sharing; military redeployments, and border demarcation. The agreement is further undermined by allegations of Southern corruption, lack of expertise, and failure to participate in key implementation bodies.

Violence in **Kenya** after a close election marred by irregularities represents a major setback in a country that had long been among Africa's most prosperous, peaceful and stable countries, and one which gradually had progressed from dictatorship to democracy. The situation remains in flux, but President Kibaki and opposition leader Raila Odinga as yet show few signs of meaningful compromise. The political dispute has played itself out in ethnic violence that has so far killed 500-1,000 and displaced as many as 250,000 people. It has damaged, perhaps for the long-term, public trust in political institutions and the democratization process. Kibaki probably will do everything he can to hold on to power. Kenya is likely to enter a period of increased social tension and instability, which could affect its willingness and ability to cooperate with the US on regional diplomatic and counterterrorist matters.

Ethiopia's intervention in **Somalia** in December 2006 quickly toppled the Council of Islamic Courts, a coalition of business, clan and religious interests increasingly under the influence of extremists with close ties to the Al-Qa'ida East Africa terrorist network. Ethiopia's intervention provoked an insurgency and sharpened divisions among Somalis, making governance close to impossible. The Ethiopian-backed

Transitional Federal Government is incapable of administering Somalia and probably would flee Mogadishu or collapse if the Ethiopians withdrew. Ethiopia's counterinsurgency operations in its own ethnic Somali region, the Ogaden, are blocking access for relief workers and creating a humanitarian crisis that risks hundreds of thousands.

Though the situation in the **Democratic Republic of Congo** has vastly improved since the early 2000s, fighting in 2007 displaced more than 400,000 civilians and could draw in neighboring countries if it resumes. The crisis underscores the fragility of Congo's post-war transition and the difficulty President Kabila will continue to have in consolidating control over the country.

Fledgling insurgencies among nomads in **Mali** and **Niger** are likely to remain confined to the remote and sparsely populated Sahara desert but nonetheless are a strain on the security forces of these two impoverished democracies. The insurgency in Niger also threatens uranium mining, which is controlled by a French company.

Tensions between longtime enemies **Ethiopia** and **Eritrea** have increased over the past year, with both sides seemingly preparing for a new war. The last war killed about 80,000 soldiers on both sides. If conflict reignites, Ethiopian President Meles's own hold on power could be put in jeopardy if the war went badly for him.

Serious threats to **Zimbabwean** President Mugabe have yet to materialize despite hyperinflation, economic decline, and political uncertainty. Ruling party insiders are divided and appear unlikely to mount a credible challenge to Mugabe in the near term. Opposition party leaders, who have been deeply divided in the past, announced in late January that they would unify behind a single candidate, but the opposition still appears unlikely to mount a serious challenge to Mugabe's authority. Zimbabwe is likely to face a political standoff if Mugabe suddenly departs the scene without ruling party consensus on his successor.

GLOBAL ENERGY SECURITY

Access to stable and affordably priced energy supplies has long been a critical element of national security. Sustained increases in global demand and the interactive effects of energy with other issues have both magnified and broadened the

significance of developments in the global energy system. Oil prices in late 2007 were near record levels and global spare production capacity is below the market's preferred cushion of 3 to 4 million barrels per day (b/d).

FACTORS FUELING HIGH PRICES

Geopolitical uncertainties and tensions heighten the risk of a major oil supply disruption and the attendant negative repercussions for the global economy. Threats to Iraqi and Nigerian oil output remain a concern despite some positive developments last year. Terrorist attacks against Persian Gulf oil facilities and the potential fallout from mounting tension with Iran over its nuclear program are significant additional risks.

In Iraq, completion of a new pipeline and security improvements have helped Baghdad boost production and exports in recent months by several hundred thousand barrels per day, but output remains vulnerable to episodic violence.

Ethnic and political violence and criminal activity threaten a large portion of Nigeria's 2.2 million b/d of oil output. Approximately 550,000 barrels per day (b/d) in potential oil production, about a fifth of Nigeria's production capacity, have been offline since February 2006 because of militant attacks, and probably another 100,000 b/d are stolen. Over the past two years, the amount shut in has been as much as 900,000 b/d. Even greater and more prolonged disruptions could occur again with no advance warning, and this fear is contributing to upward pressure on oil prices in international markets. US companies have billions of dollars in investments in Nigeria. Abuja has begun to take these problems more seriously and directed national security assets to the area. However, local militias, who target oil facilities and kidnap foreign oil company personnel, will remain a persistent threat until political and other grievances are addressed.

Public statements by al-Qa'ida leaders indicate that terrorists are interested in striking Persian Gulf oil facilities.

Iran could withhold some or all of its 2.4-million barrels per day oil exports or even try to impede the flow of 18 million barrels per day of oil through the Strait of Hormuz if its pursuit of the nuclear fuel cycle sparks a major crisis; however, we assess Tehran is likely to take these provocative steps only if it perceived it had little to lose. Venezuela's President Chavez

has pledged solidarity with Iran and might also curtail some or all of his country's exports of about 2 million b/d in such a scenario.

WINDFALL FOR PRODUCERS

High energy prices and escalating demand for oil and natural gas, also has resulted in windfall profits for producers. OPEC countries earned an estimated $690 billion from oil exports last year, nearly three times the revenues earned in 2003. The increased revenues also have enabled producers like Iran, Venezuela, Sudan, and Russia to garner enhanced political, economic and even military advantages and complicated multilateral efforts to address problems such as the tragedy in Darfur and Iran's nuclear program.

With about 70 percent of global oil reserves inaccessible or of limited accessibility to outside oil companies, competition between international oil companies to secure stakes in the few countries open to foreign investment is likely to intensify. Determined to secure the energy inputs necessary to fuel continued robust economic growth, Chinese and Indian state-owned and private energy companies are pursuing strategic investments in energy assets worldwide. We also see a sharp rise in Russia's investment abroad, much of it driven by Russian energy companies. Moscow is using the power of its energy monopoly to ensure that East-West energy corridors remain subject to Russian influence.

RISING GLOBAL FOOD PRICES

Global food prices also have been rising steadily over the past two years driven by higher energy prices—which push up input costs—weak harvests, historically low stocks, and robust demand. Wheat prices were up over 60 percent in 2007, and are at a 20-year high. Other foodstuffs such as vegetable oils also are near records. There is little near term relief in sight because production increases in several countries, including Australia, are hampered by water shortages and land constraints. High food prices in several countries, including Russia, China, India, and Vietnam, are forcing governments to engage in market distorting practices such as banning food exports, increasing subsidies, or fixing prices: Food prices are likely to be an issue in several upcoming elections, particularly Pakistan.

The double impact of high energy and food prices is increasing the risk of social and political instability in vulnerable countries. Corn protests in Mexico, bread riots in Morocco, and recent unrest in Burma are directly linked to

higher food and energy prices. Higher food prices, as well as rising transportation and logistical costs, also have outstripped global aid budgets and adversely impacted the ability of donor countries and organizations to provide food aid. For example, the World Food Program's food costs have increased by more than 50 percent over the past five years and are projected to grow another 35 percent by the end of the decade.

INFECTIOUS DISEASE AND US SECURITY

The international spread of infectious diseases and the increasing emergence of new ones remain challenges to US security. Even with the UN's recent downgrading of the size of the HIV/AIDS epidemic, that disease, malaria, and tuberculosis together kill 6 million persons annually. The spread of infectious disease is exacerbated by poverty, an insufficient global health infrastructure, increasing globalization, urbanization (especially in the developing world), migration, complex humanitarian emergencies with resultant refugee flows, and environmental degradation. Additionally, misuse of antibiotics has led to an increase in resistant bacteria strains.

The most direct threat to the US is the spread of infectious pathogens to our shores, or within areas where US personnel are deployed. Disease also indirectly threatens us with its potential impacts upon the international economy, civil society and critical infrastructures. Even a relatively limited outbreak, as happened with SARS in 2003, can have widespread ripple effects. Even if an outbreak does not threaten the US directly, the resulting instability or humanitarian emergency can place additional demands on US military and financial resources.

The most pressing infectious disease challenge for the United States is still the potential emergence of a severe influenza pandemic. Although the avian H5N1 virus has remained primarily a threat to poultry, it continues to expand its geographic coverage, and to evolve—indeed it retains the potential to evolve into a human pandemic strain.

A virulent virus from such an emerging pandemic also has the potential to be used as a weapon by a terrorist group or a technically experienced lone actor; such an attack would likely be devastating, both economically and socially. While we do not currently see this level of technical sophistication in terrorist groups—isolating a virulent strain is difficult—the possibility cannot be ruled out; therefore, we will continue to use our intelligence resources to try to help detect any such preparations

to use a virus as a terrorist weapon.

CONCLUSION

The issues that we consider here today confront responsible citizens and their governments everywhere. I, my colleagues, and the Intelligence Community we represent are fully committed to arming our policymakers, warfighters, and law enforcement officers with the best intelligence and analytic insight we can. This is necessary to enable them to take the actions and make the decisions that will protect American lives and American interests, here and around the world.

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

FEBRUARY 13, 2008

QUESTIONS SUBMITTED BY MR. LAMBORN

Mr. LAMBORN. On pages 24 and 25 of your written testimony, he mentions several items in connection with Syria, but one thing that is not mentioned is the September 2007 bombing by Israel of a facility of some type in Syria. There is talk that Syria has resumed construction and rebuilding of that facility. Could you please characterize the nature of that Syrian facility at the time of the air strike and share whatever knowledge you have of Syrian nuclear capabilities or ambitions?

Dr. FINGAR. [The information referred to is classified.]

